First-class project execution capabilities

JGC delivers top-quality plants and facilities while staying within defined budgets and project schedules. As an engineering contractor, the company views project management as its most important skill. It forecasts and analyzes various risks inherent in projects and formulates optimal project implementation plans. Plants and facilities built by JGC worldwide bear witness to the full application of its experience for over 80 years. It is a leader among global contractors in seamless project implementation capabilities, notably lump-sum turnkey projects.
Advanced technologies for maximum returns

JGC leverages its expertise in design technologies, such as process technology, in its engineering work for plants and facilities. It factors in both plant construction costs (Capex) and plant operating costs (Opex). The completed facilities ensure maximum returns for customers making capital investments. JGC’s approach to technology is not limited to the refinement of existing engineering technology and optimization by technology integration. It extends to the proactive utilization of the IoT and other advanced technologies, as well as environmental efforts such as reducing the burden of fossil fuel energy and promoting wider use of renewable energy.
Highly driven human resources offering excellent leadership and goal completion

JGC’s outstanding performance as an engineering contractor comes from the aggregate of skills possessed by individual human resources. Talented professionals are headed by excellent managers who provide leadership and controls over a project staff that might at times reach as many as tens of thousands of people. Project managers devise and resolutely implement optimal response measures for issues that occur at all phases of projects and move projects forward to successful completion. Individuals at JGC harness a strong sense of mission to ensure that the goals of customers through capital investments become a reality.
Top priority on safety

JGC’s absolute aim is to deliver its customers’ projects without incidents or injuries as the most important mission given to an engineering contractor. However, this cannot be achieved unless all staff involved in construction work, not only the prime contractor but also sub-contractors, recognize and implement this mission. JGC reviews procedures for individual tasks and promotes awareness to conclusively communicate the concept of safety first to all staff in the performance of construction work.

Accident-free work record

130,900,000 hours

(1 July 2012 - March 2014) Barzan Onshore Project

New JGC Group Corporate Philosophy

The JGC Way

The JGC Group's corporate philosophy, The JGC Way, provides us with a fundamental orientation and guidelines for the conduct of business activities by the Group as well as the individual behavior of the Group's executives and employees.

Mission

We are committed to creating a more prosperous future for our clients, for people, and for society through integrating our core capabilities and technical expertise to generate innovative solutions.

Values

We are driven by our shared values and commitments. These elements express our strengths and represent the basis for how we work and deliver solutions to our clients and stakeholders:

- Shared Values
  - Challenge: We venture into new business fields, overcome technical hurdles and establish innovative methodologies.
  - Create: We remain dedicated to developing results-focused, thoughtful solutions that meet the needs of our clients and benefit society as a whole.
  - Integrate: We bring together a wide range of technologies, innovative tools and a diverse team dedicated to increasing value to all stakeholders.
  - Deliver: We commit to overcoming obstacles through diligence and our “never give up” philosophy, and to delivering quality products and services to our clients and society.

- Professional Commitments
  - Respect: We undertake to foster mutual respect and support among all those involved in our activities and to emphasize the importance of safety for all.
  - Integrity: We pledge to maintain the highest ethical standards in everything we do.

Vision

We bring a new generation of innovative solutions to the energy and infrastructure industries by utilizing our core competencies in engineering and project management.
To Our Stakeholders

In the occasion of the publication of the 2016 edition of the JGC Report, we offer our heartfelt thanks for the deep understanding of our business activities and the vigorous support shown by all our stakeholders. In May 2016, the Company announced its new “Beyond the Horizon” 5-year medium-term management plan, of which fiscal 2016 is the inaugural year. While the oil and gas industries will be positioned as the core fields for the Company, as before, we will expand our business area into the infrastructure field, aiming to achieve further growth as a steadily expanding corporate group that is able to ride out any market fluctuations. The previous fiscal year of 2015 saw a continuation of the extremely challenging environment in the plant market, characterized by lower oil prices and excess LNG supply, leading in turn to tightly controlled capital investments at major oil companies and national oil companies. However, due to expanding demand for energy against a background of rising population and economic growth, capital expenditure (CAPEX) in oil and gas industries by the state-owned oil companies of oil-producing countries began to show positive signs at the start of fiscal 2016. While taking the measure of the changing market environment, the Company will resolutely implement the business strategies set out in the new “Beyond the Horizon” medium-term management plan, looking toward the realization of still greater business expansion. By this means, we will fulfill the mission of creating a prosperous future for people and the planet as outlined in its corporate philosophy, The JGC Way, and respond to the expectations of its diverse stakeholders, including shareholders, clients, suppliers and local communities.
JGC: Value Creation & Businesses

Based on our management philosophy – We are committed to creating a more prosperous future for our clients, for people and for society through integrating our core capabilities and technical expertise to generate innovative solutions – we are creating value and responding to the needs of society through our engineering business.

JGC’s Businesses

**EPC Business**

**Oil and Gas Field**

In the oil and gas business, JGC’s activities cover all aspects of oil and natural gas exploration and development from upstream to downstream and are trusted as a vital partner by Japanese oil firms as well as oil majors and national oil companies. It has achieved a top global position in technological capabilities and results for LNG plants in particular.

**Infrastructure Field**

JGC leverages its engineering technologies and project management capabilities cultivated in the oil and gas business to implement many projects in Japan and other countries involving power plants and other energy infrastructure, non-ferrous metals and other industrial infrastructure, and pharmaceutical plants, hospitals, environmental facilities, and other social infrastructure areas, and it consistently leads customers’ capital investment plans to success.

**Investment and Services Operations**

Based on the engineering technology that we have nurtured through many EPC operations, and on a rich project management track record built in all four corners of the world as a distinctive organization that offers both operational services capabilities and technological expertise, we invest and operate in a wide range of areas around the globe, such as power generation and desalination, oil & gas development and new energy, transportation, healthcare, and agriculture.

**Manufacturing Industry**

As well as holding a position as a world leading supplier of petroleum refining catalysts, the JGC Group also manufactures and sells various forms of these substances for other petrochemical plants as well as for environmental protection purposes. Additionally, it utilizes nanotechnologies cultivated for catalyst production for the production and sale of IT materials, electronic materials, optical materials, cosmetics materials, and other fine materials.

JGC’s Corporate Value

++ Providing Stable Energy to the World Through EPC

In order to fulfill the rising demand for energy caused by the world’s population growth, we contribute to global energy supplies through the Company’s core business of EPC for oil and gas.

++ Contributing to the Development of Oil and Gas-Producing Countries

As well as managing developments in emerging economies that have expanded together with oil and gas development, we commit the resources necessary to provide close support to the further growth of these countries.

++ Rolling out Social Infrastructure

In developing countries with ongoing economic growth, there is an expanding need for healthcare such as pharmaceuticals and hospitals, and the provisioning of transportation infrastructure such as airports is also an urgent issue. We support the roll-out of social infrastructure in such developing countries through both the EPC business and the investment business.

++ Contributing to Global Environment Conservation

Through the EPC and investment businesses, as well as through technology development, we deploy initiatives that contribute to the conservation of the global environment by making effective use of resources, promoting greater energy efficiency usage, commercializing renewable energy and so on.

Mission

We are committed to creating a more prosperous future for our clients, for people, and for society through integrating our core capabilities and technical expertise to generate innovative solutions.
The world is facing a range of social problems at the global level, including energy issues and intensifying climate change. Recognizing its role as a corporate group to be the creation of prosperous future for our clients, for people and for society, the JGC Group is contributing to the resolution of diverse social issues, in particular through its core EPC business.

Value Provided to Each Stakeholder

**Clients**
Realizing Development of Economic and Social Infrastructure

**Shareholders / Investors**
Retaining Profits Generated by Medium-to-Long-term Corporate Value Creation

**Suppliers**
Working and Growing Together on Equal Terms

**Local Communities**
Creating Sustainable Employment

**Employees**
Protecting Human Resources to Drive Sustained Growth

### The EPC Operations and the Value Chain

#### Business Planning Phase

- **Feasibility Studies**
  - Draw up plan for commercialization
  - Consider economic potential
  - Arrange finance
  - Conceptual design

- **Front-End Design**
  - Decide basic specifications
  - Various types of basic design
  - Calculate detailed costs and schedules
  - Draw up plan for composition of facilities, taking into account local environment
  - Draw up plan for composition of facilities, taking into account safety concerns

- **Initiatives**
  - Propose energy-saving technology
  - Propose technology for effective energy use

#### EPC Phase

- **Design**
  - Various types of detailed design (process, equipment, etc.)

- **Purchasing**
  - Selecting vendors, ordering materials
  - Manage manufacturing processes / quality
  - Manage transportation

- **Construction Work / Commissioning**
  - Manage construction work
  - Commissioning
  - Performance assurance testing

- **Operations and Maintenance**
  - Operational support
  - Periodic repair work
  - Dealing with trouble
  - Support for expansion and capacity increases

- **Encourage use of environmental safety measures by vendors**

- **Reduce paper use significantly through use of digital technology**

- **Apply environment management systems** (legal compliance, thorough environment risk management, etc.)

- **Thorough implementation of health and sanitation measures** (precautionary disease prevention, construction of medical facilities)

- **Thorough implementation of safety measures** (implement systems and facilities, safety patrols, etc.)

### Social Issues

- **Energy Access**
- **Inadequate Electric Power Supply**
- **Climate Change**
- **Rising population**
## Financial and Non-financial Highlights

### Performance highlights

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Sales</strong></td>
<td>¥68,529</td>
<td>¥51,062</td>
<td>¥50,911</td>
<td>¥41,257</td>
<td>¥44,722</td>
<td>¥556,966</td>
<td>¥624,637</td>
<td>¥675,821</td>
<td>¥799,076</td>
<td>¥879,954</td>
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<tr>
<td><strong>Operating Income</strong></td>
<td>26,413</td>
<td>44,896</td>
<td>52,003</td>
<td>41,919</td>
<td>63,559</td>
<td>67,053</td>
<td>64,123</td>
<td>68,253</td>
<td>29,740</td>
<td>49,661</td>
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<tr>
<td><strong>Profit attributable to owners of parent</strong></td>
<td>20,187</td>
<td>30,019</td>
<td>31,543</td>
<td>27,112</td>
<td>25,477</td>
<td>39,111</td>
<td>44,179</td>
<td>47,178</td>
<td>20,628</td>
<td>42,793</td>
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<tr>
<td><strong>New Contracts</strong></td>
<td>301,347</td>
<td>402,352</td>
<td>506,135</td>
<td>733,549</td>
<td>618,203</td>
<td>793,278</td>
<td>594,091</td>
<td>818,161</td>
<td>769,680</td>
<td>320,626</td>
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<tr>
<td><strong>Outstanding Contracts</strong></td>
<td>744,679</td>
<td>632,827</td>
<td>671,341</td>
<td>982,594</td>
<td>1,143,256</td>
<td>1,506,146</td>
<td>1,549,813</td>
<td>1,767,814</td>
<td>1,772,036</td>
<td>1,250,336</td>
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</table>

### Financial position at Year-End

<table>
<thead>
<tr>
<th></th>
<th>Total Current Assets</th>
<th>Total Current Liabilities</th>
<th>Total Assets</th>
<th>Total Net Assets</th>
<th>Shareholders’ Equity</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>March 31, 2007</strong></td>
<td>327,333</td>
<td>237,585</td>
<td>470,286</td>
<td>189,239</td>
<td>188,965</td>
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<tr>
<td><strong>March 31, 2008</strong></td>
<td>324,616</td>
<td>217,339</td>
<td>466,772</td>
<td>207,536</td>
<td>207,259</td>
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<tr>
<td><strong>March 31, 2009</strong></td>
<td>335,220</td>
<td>208,023</td>
<td>480,279</td>
<td>224,488</td>
<td>223,887</td>
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<tr>
<td><strong>March 31, 2010</strong></td>
<td>283,538</td>
<td>137,728</td>
<td>430,176</td>
<td>244,140</td>
<td>245,819</td>
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<tr>
<td><strong>March 31, 2011</strong></td>
<td>319,444</td>
<td>174,293</td>
<td>526,169</td>
<td>264,483</td>
<td>263,987</td>
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<tr>
<td><strong>March 31, 2012</strong></td>
<td>376,172</td>
<td>205,771</td>
<td>528,757</td>
<td>290,415</td>
<td>290,415</td>
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<td><strong>March 31, 2013</strong></td>
<td>440,231</td>
<td>262,439</td>
<td>746,102</td>
<td>335,374</td>
<td>335,534</td>
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<td><strong>March 31, 2014</strong></td>
<td>575,866</td>
<td>333,353</td>
<td>791,754</td>
<td>379,882</td>
<td>374,654</td>
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<td><strong>March 31, 2015</strong></td>
<td>533,538</td>
<td>286,533</td>
<td>689,782</td>
<td>388,496</td>
<td>418,699</td>
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<tr>
<td><strong>March 31, 2016</strong></td>
<td>522,747</td>
<td>225,203</td>
<td>689,782</td>
<td>419,673</td>
<td>419,673</td>
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</table>

### Cash-flow

<table>
<thead>
<tr>
<th></th>
<th>Net operating cash flow</th>
<th>Investment cash flow</th>
<th>Financing cash flow</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>March 31, 2007</strong></td>
<td>79,113</td>
<td>-14,009</td>
<td>1,552</td>
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<td><strong>March 31, 2008</strong></td>
<td>28,864</td>
<td>-15,032</td>
<td>-7,317</td>
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<tr>
<td><strong>March 31, 2009</strong></td>
<td>36,595</td>
<td>-26,457</td>
<td>-3,177</td>
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<tr>
<td><strong>March 31, 2010</strong></td>
<td>-25,179</td>
<td>-19,823</td>
<td>-8,893</td>
</tr>
<tr>
<td><strong>March 31, 2011</strong></td>
<td>48,214</td>
<td>116</td>
<td>-7,317</td>
</tr>
<tr>
<td><strong>March 31, 2012</strong></td>
<td>97,847</td>
<td>-18,746</td>
<td>-20,536</td>
</tr>
<tr>
<td><strong>March 31, 2013</strong></td>
<td>85,010</td>
<td>-28,370</td>
<td>-3,695</td>
</tr>
<tr>
<td><strong>March 31, 2014</strong></td>
<td>120,576</td>
<td>-18,728</td>
<td>-10,687</td>
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<tr>
<td><strong>March 31, 2015</strong></td>
<td>-71,416</td>
<td>-23,411</td>
<td>3,836</td>
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<td><strong>March 31, 2016</strong></td>
<td>-49,744</td>
<td>8,696</td>
<td>-4,374</td>
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### Financial Highlights

<table>
<thead>
<tr>
<th></th>
<th>ROA (Return On Assets) (%)</th>
<th>ROE (Return On Equity) (%)</th>
<th>EPS (Earnings Per Share) (in yen)</th>
<th>Cash Dividends per Share (in yen)</th>
<th>Gross Margin Ratio (%)</th>
<th>Operating Income Ratio (%)</th>
<th>Shareholders’ equity ratio (%)</th>
<th>Current ratio (%)</th>
<th>Payout Ratio (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>March 31, 2007</strong></td>
<td>7.8</td>
<td>11.2</td>
<td>79.52</td>
<td>15.0</td>
<td>7.2</td>
<td>4.3</td>
<td>7.2</td>
<td>137.8</td>
<td>18.9</td>
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<td><strong>March 31, 2008</strong></td>
<td>10.0</td>
<td>15.2</td>
<td>118.33</td>
<td>-15.016</td>
<td>8.1</td>
<td>8.1</td>
<td>11.6</td>
<td>149.4</td>
<td>17.7</td>
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<td>15.2</td>
<td>124.76</td>
<td>-26.457</td>
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<td>11.5</td>
<td>16.0</td>
<td>161.1</td>
<td>24.0</td>
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<tr>
<td><strong>March 31, 2010</strong></td>
<td>9.0</td>
<td>15.2</td>
<td>107.25</td>
<td>-19.823</td>
<td>21.0</td>
<td>21.0</td>
<td>14.6</td>
<td>205.9</td>
<td>19.6</td>
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<td><strong>March 31, 2011</strong></td>
<td>14.1</td>
<td>14.6</td>
<td>154.90</td>
<td>30.00</td>
<td>14.6</td>
<td>12.0</td>
<td>14.8</td>
<td>186.90</td>
<td>55.2</td>
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<tr>
<td><strong>March 31, 2012</strong></td>
<td>14.6</td>
<td>12.6</td>
<td>182.91</td>
<td>38.5</td>
<td>14.8</td>
<td>10.3</td>
<td>13.5</td>
<td>81.73</td>
<td>53.2</td>
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<tr>
<td><strong>March 31, 2013</strong></td>
<td>12.6</td>
<td>12.2</td>
<td>186.90</td>
<td>45.5</td>
<td>14.8</td>
<td>10.1</td>
<td>13.1</td>
<td>419.60</td>
<td>50.2</td>
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<tr>
<td><strong>March 31, 2014</strong></td>
<td>12.2</td>
<td>13.3</td>
<td>46.5</td>
<td>44.5</td>
<td>13.3</td>
<td>10.1</td>
<td>6.6</td>
<td>242.5</td>
<td>50.0</td>
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<tr>
<td><strong>March 31, 2015</strong></td>
<td>6.1</td>
<td>10.6</td>
<td>21.0</td>
<td>21.0</td>
<td>5.4</td>
<td>3.7</td>
<td>8.3</td>
<td>60.7</td>
<td>25.1</td>
</tr>
<tr>
<td><strong>March 31, 2016</strong></td>
<td>7.4</td>
<td>169.60</td>
<td>6.6</td>
<td>25.1</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

### ESG indicators

- Number of incidents of leaks of hazardous substances, etc. (Domestic and overseas construction sites)
- Number of women in management positions
- Rate of frequency of accidents accompanied by lost work time (%)

### Notes

1. As a consequence of applying “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013), “Net income” is referred to as “Net income attributable to the owners of the parent” from the fiscal year ended March 2016 onward.

2. Rate of frequency of accidents accompanied by lost work time = Number of accidents accompanied by lost work time × 200,000 ÷ Total project working hours.

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**The Corporate Value Creation Process**

**The Foundations of Value Creation**

**Financial Affairs**

**JGC Report 2016**
Toward Further Enhancements in Corporate Value

Chairman and Representative Director

Career Summary
Since joining JGC in 1973, has worked throughout in Artificial and engineering. Has been in charge of business for projects in the Middle East, North Africa, Southeast Asia, and CIS countries. Appointed Chairman in June 2013. From July 2012 served as Managing Director, Senior General Manager of the Corporate Administrative & Financial Affairs Division, and Chief Financial Officer. In June 2012 was appointed Executive Vice President and Director. Since June 2014 has held position of Chairman and Representative Director.

Realization of Increased Corporate Value through the Implementation of “Beyond the Horizon”

In May 2016 the JGC Group announced its new “Beyond the Horizon” medium-term management plan for fiscal years 2016 – 2020. Amid poor visibility in the markets for the resource business, “Beyond the Horizon” seeks to reinforce and grow the core EPC operations in the oil and gas industries in order to further enhance corporate value. At the same time, we will expand our business area outside of oil and gas into energy infrastructure and social infrastructure, while making a full-scale push into the O&M services industry and generating stable profits from business investments, with the aim of achieving the net income target we have set of 60 billion yen by fiscal 2020.

Corporate Management with a Focus on Increased Capital Efficiency

From the perspective of the medium to long-term enhancement of corporate value, we recognize the importance of improving capital efficiency, and one of the goals of “Beyond the Horizon” is to maintain the shareholders’ equity ratio at a stable level of 50% or more, with an additional ROE target of 10% or higher, in order to preserve a solid financial foundation and to allow a reserve for raising funds in order to execute business strategies. At the same time, we will focus on the efficient distribution of funds in hand as part of our moves to improve capital efficiency, placing the emphasis on working capital related to the EPC business, strategic investments for further growth and expansion, and shareholder returns.

Further Progress in the Promotion of Employee Diversity

Human resources form a crucial asset of the JGC Group, and we are also taking the initiative in matters of employee diversity. Currently, one person in six employed at the Yokohama headquarters is non-Japanese, and at plant construction sites overseas we appoint a diverse range of individuals according to their ability and without discrimination with regard to culture, language, or religion. We are also making efforts to nurture the human resources that will support the Company’s global expansion from a long-term perspective, to which end we have established and are implementing a system whereby new employees are dispatched to construction sites in order to give them exposure to a diverse range of values. Going forward, the JGC Group will pursue maximum corporate value in accordance with our corporate philosophy, aiming to gain the support of a wide range of stakeholders through continual development.
Message from the President

Overcoming Difficult Market Environment to Seek out Further Growth

After peaking in the summer of 2014, oil prices plunged in fiscal 2015 and remained depressed, causing international oil companies (IOC) and national oil companies (NOC) to scale back capital expenditure (CAPEX), leading to an extremely difficult environment in the overall plant market. However, the plant market is forecast to recover gradually from fiscal 2016 onward and we believe that fiscal 2015 represented the bottom of the market. The Company will work with all its strength to achieve the goals of the new “Beyond the Horizon” medium-term management plan, announced in May 2016 and running from fiscal 2016 to fiscal 2020.

Q1. Please give us an overview of the March 2016 fiscal year.

High levels of net sales and net income, but orders struggled due to plant market contraction.

With regard to sales, progress in large-scale projects already underway, such as those related to LNG, was steady and we were able to maintain a high level of sales at ¥79.9 billion yen. As for net income, gross margins dipped slightly compared to expectations and there was an increase in losses on exchange due to the stronger yen, but the 42.8 billion yen posted was comparable to the level of the past several years. For orders, the stagnation in oil prices has continued, leading the major oil producers and oil and gas-producing countries to review part of their capital investment plans. The decline in tendered projects resulted in a continuation of the difficult conditions in the plant market as a whole. In this environment, the Company bid for a limited number of small to medium-scale deals, winning orders for oil and gas-related projects in Southeast Asia and the Middle East, but consolidated new contracts only reached 320.6 billion yen.

Q2. Please share your thoughts on the outlook for the operating environment in the March 2017 fiscal year.

Recognizing the need to achieve financial and order forecasts in the first year of the new plan.

Fiscal 2016 is the first year of “Beyond the Horizon,” our new medium-term management plan, and as such will play an important part in enabling us to reach the targets of net sales of 1 trillion yen or more and net income of 60 billion yen set out by the plan. Since touching ¥26 billion yen in February 2016, after a decline that began in the second half of 2014, oil prices have followed a gentle rising curve and projects the Company intends to bid for in fiscal 2016 are predicted to increase in both number and scale compared to fiscal 2015. By region, there are plans in the Middle East, Africa, Southeast Asia, Central Asia, and North America for projects related to gas processing, oil refinery, F-LNG and LNG receiving terminals, petrochemicals, and power generation. In Japan, large-scale investments are planned in such fields as chemicals, power generation, photovoltaic (PV) plant, and pharmaceutical products. I want to achieve our new contracts target by winning as many orders as possible for superior projects that allow us to secure profits. The outlook for major large-scale LNG projects in North America and Africa remains uncertain so we have not included these in our new contract forecasts, but LNG CAPEX plans of the major oil company and the state-owned national oil company are forecast to pick up in earnest around 2017 or 2018 in order to relieve the tightness in LNG supply predicted for the first half of the next decade. I expect some of the faster-moving projects to emerge in fiscal 2016.

Q3. What are the goals of the new “Beyond the Horizon” medium-term management plan?

Achieving further growth for the Group by expanding the business area.

Our new “Beyond the Horizon” medium-term management plan makes a clear statement about the direction and the business area of the Group 10 years from now, that is, in 2025, while providing a growth strategy for the first five years of that period to enable us to increase management indicators, such as net sales and net income, and to implement further change. Our numerical targets are net sales of 1 trillion yen or more, net income of 60 billion yen, and ROE of 10% or more in fiscal 2020. Our thinking is that in fiscal 2025 on an adjusted operating income base*, oil and gas fields will account for 60% of the total, and manufacturing for 20%.

*CORPORATE VALUE CREATION PROCESS

1. Identify growth opportunities
2. Recognize the need to achieve financial and order forecasts in the first year of the new plan
3. Fiscal 2016 is the first year of “Beyond the Horizon,” our new medium-term management plan, and as such will play an important part in enabling us to reach the targets of net sales of 1 trillion yen or more and net income of 60 billion yen set out by the plan. Since touching ¥26 billion yen in February 2016, after a decline that began in the second half of 2014, oil prices have followed a gentle rising curve and projects the Company
It will be difficult to achieve the numerical targets in “Beyond the Horizon” if our business area remains restricted to the oil and gas downstream plant, as it is currently. Accordingly, I have taken the course of expanding our business area into the infrastructure field while keeping the oil and gas fields at the core. Specifically, while planning to grow the core EPC business in the oil and gas fields, we aim to generate stable profits by expanding in the infrastructure field of the EPC operations, as well as in non-EPC operations such as business investments.

Basic Policy 1 is rooted in our perception that within the core EPC business of the JGC Group, the expansion in the oil and gas fields (oil refining, gas processing, LNG, petrochemicals, among others) is the area on which we should focus most of our attention. This is because the profits from these fields account for the majority of total profit. This is indispensable also in the sense of surmounting the current market environment and preparing for the improved market environment that should emerge, and we are also planning to enter the O&M service business. In addition, while planning to expand the infrastructure field of the EPC operations, we will favor engineering contractors that are able to cover both oil and gas and infrastructure.

Basic Policy 2 mainly concerns the strengthening of business investment, which was started in 2005 with the aim of offsetting the fluctuations in earnings in the EPC operations. Until now we have been able to generate results in terms of establishing our position as a player in power and water business (IWPP), improving business potential by demonstrating our EPC contractor know-how, developing specialist human resources, and acquiring knowledge in each business field, but profits have not matched our expectations and we recognize that there are issues that must be addressed going forward. Based on the lessons of the past 10 years, we will establish clearer standards for investment and steadily realize profits through a process of selection and concentration.

As part of Basic Policy 3 we are aware of the need for greater capital efficiency, and will distribute funds in hand according to quantitative standards, but with priority given to investments for the growth strategy, risk buffer for the EPC operations, and shareholder returns. Further, we have established targets of 50% or more for the shareholders’ equity ratio and ROE of 10% or more. Our target for the dividend payout ratio has been raised from 25% up to the March 2016 fiscal year to 30% of consolidated net income.

With regard to our policy on shareholder returns, as a rule we implement this through dividends, but we will also consider share buybacks if necessary, depending on such factors as funds in hand and recent movements in the share price.

Q4. What are your thoughts on the role that the JGC Group should play in future? Our goal is to realize a sustainable society as well as to change ourselves. The JGC Group’s mission is to create a more prosperous future for our clients, for people and for society through integrating our core capabilities and technical expertise to generate innovative solutions. In order to fulfill this mission, the Group must expand and grow. Today the world is facing many serious issues, such as environmental problems related to growth in demand for energy and population growth. Going forward, while realizing sustainable growth as a Group we will tackle these problems by bringing to bear the engineering technology and project management cultivated by us over a wide range of fields. With the objective of realizing a sustainable society, we will continue to take on new challenges, change ourselves, and strive to meet the expectations of all our stakeholders.
**Beyond the Horizon**

The JGC Group announced its new “Beyond the Horizon” medium-term management plan for fiscal years 2016 - 2020. Our new plan clarifies the direction and business area of the Group 10 years from now in 2025. While pursuing achievement of a new role as “Program Management Contractor & Investment Partner,” the plan also provides a growth strategy for the first five years of that period to enable us to increase management indicators, such as net sales and net income, and to implement further change.

In its previous medium-term Business plan “NEW HORIZON 2015,” the JGC Group set itself the target of becoming a new corporate entity (“Program Management Contractor & Investment Partner”) that transcends the traditional EPC contractor frame. In terms of numerical targets, the JGC Group put the sum of its strength into achieving the goal of consolidated net income of 50 billion yen in fiscal 2015 (the March 2016 fiscal period) with ROE of 10% or more. Overcoming the changes in the operating environment caused by a hydrocarbon market that proved far more volatile than expected, the Group increased orders received and net sales, and as a result net income exceeded 45 billion yen in fiscal 2012 and 2013. Meanwhile, between fiscal 2011 and fiscal 2015, the 5-year average of ROE came in at 11.6%, surpassing the target.
Toward the Realization of Sustainable Development

JGC works on projects throughout the world, and no two are alike. Our clients and society as a whole expect us to fulfill numerous requirements, and each case calls for new responses on our part. Despite the fact that the requirements to be fulfilled differ for each of our projects, we continue to work to overcome the associated problems, cooperating with our stakeholders and striving towards the realization of sustainable societies through the implementation of our projects.

This special feature looks at two projects completed by JGC in 2015, the Donggi Senoro LNG Project in Indonesia and a carbon dioxide capture and storage (CCS) project conducted in Hokkaido, from social and environmental perspectives.

PROJECT 01

Initiatives to Benefit the Regional Community and the Environment within the Project

Project Overview

The Donggi Senoro LNG Project entailed the construction of a plant able to process two million tons of liquefied natural gas (LNG) per year, and represented Indonesia’s fourth LNG production facility. The project differed from conventional LNG projects led by oil majors or state-owned oil companies in being the first LNG project led by Japanese companies, and has the potential to provide a model case for future stable LNG supply for Japan. The project began in April 2011, and was completed, and produced and shipped its first cargoes, in October 2015. Realizing accord with local residents was one of the factors in the success of this project. As Sulawesi’s first large-scale energy plant construction project, the Donggi Senoro LNG Project attracted a great deal of attention from the local community. Our goal for the project was not merely to secure profits for JGC, but also to help realize sustainable development in the project region, and we brought the project to a successful conclusion while also consistently implementing a variety of measures that prioritized harmony with the local community, including employing local people and ordering equipment from local businesses, repairing village roads to support the health and safety of local residents, instructing local high school students in safe motorcycle riding, offering traffic safety instruction on public roads close to the project site, and arranging for instruction by physicians regarding anti-malaria measures. On the next page, we introduce some of our local initiatives in Sulawesi.
Employment of Local Residents

Sulawesi is located 1,800 kilometers distant from Indonesia’s capital Jakarta, and the Donggi Senoro LNG Project was the island’s first large-scale energy plant construction project. Almost all of the local residents were engaged in fishing or farming. In collaboration with our clients and representatives of the Indonesian government, we decided to directly recruit only Indonesian citizens for the project, and more than half of these were residents of the region close to the construction site. In employing local people, we shared the recruitment process with local construction companies, and took the population of each of the local villages into consideration in order to ensure fair recruitment.

Education Programs for Local Residents

As part of our initiatives to ensure that the local community understood the social significance of the project, we conducted 13 site tours, guiding a total of 637 students around the site. The program was designed to inspire an interest in energy plants in the students, and to offer them an image of what it would be like to be employed in a related industry in the future, by giving them the same safety training as employees receive, providing an overview of the project, and offering education in construction techniques, concluding with a tour around the site.

Site Tours for Local Students

Training for Local Residents working on the Project

Based on our conviction that providing training for the local residents employed on the project would contribute both to the success of the project and the sustainable development of the region, by ensuring that the local employees had acquired skills in construction techniques at the completion of the project and would be able to use those skills in other projects in the future, we have contributed to the realization of a sustainable society in the local region.

Seeking to Realize Zero Traffic Accidents on Sulawesi

Awareness of traffic safety was poor in the area surrounding the construction site. For example, many children who had not yet reached the age at which they could apply for a license were riding motorbikes. Taking into consideration the increase in the volume of traffic with vehicles related to site work, and the effect that this would have on the local area, we worked in cooperation with local police, and company employees offered traffic safety courses for the students of local schools. Using knowhow cultivated by safety activities on other construction sites, they communicated the importance of traffic safety to more than 1,000 students, and worked to inspire safety awareness.

In addition, we also conducted initiatives to upgrade local traffic infrastructure, for example by conducting repair work on village roads and spraying down dirty and gravel roads.

Oil recovery drill using oil fence

Taking samples from a river near a site for environmental monitoring purposes

The area around the construction site was home to a rich natural environment, supporting diverse ecosystems. We instituted comprehensive environmental management measures in order to protect this environment. We have maintained a record of zero leaks of hazardous substances and other contaminants from our domestic sites since fiscal 2011, and on the Donggi Senoro LNG Project, we shared an absolute awareness of the necessity for preventing any contamination from within the site with the students and all employees of participating companies, and we put this awareness into practice. Two of our major initiatives involved conducting oil recovery drills using an oil fence and collecting samples from the river close to the site for the purpose of environmental monitoring.

Together with JGC, PT. Sekawan Kontrindo (SK) contributed significantly to the success of the Donggi Senoro LNG Project from both social and environmental perspectives. In conducting the project, the goal of the two companies was not merely to seek profits; one of its important goals was to assist members of the local community in becoming more autonomous by providing employment opportunities for local people. Local residents comprised 68% of the more than 2,000 construction workers employed by SK, and they were not employed just to perform simple tasks, but were provided with training in procedures such as welding and pipe installation. Since the use of the technical skills learned by these employees would not be limited to the Donggi Senoro Project, but would provide them with opportunities for employment in other projects being planned in Indonesia and elsewhere, their training was thorough, and the training applied themselves seriously in acquiring skills. In addition, based on the guidelines for environmental protection established for the project, we advanced initiatives to increase awareness of safety and the environment, providing local residents with education concerning health and safety and the regional environment. In all of these ways, the local community became involved with the project both directly and indirectly, contributing to their increased autonomy as well as to the project’s success.

SPECIAL FEATURE

Sustainable development

Visit to site by students from nearby high school

Safety lectures for high school students

PROJECT 01

The Donggi Senoro LNG Project

Two of our major initiatives involved conducting oil recovery drills using an oil fence and collecting samples from the river close to the site for the purpose of environmental monitoring.
Aiming to Reconcile Engineering and the Environment

Initiatives to Conserve the Global Environment
The IPCC’s Fifth Assessment Report, published in 2014, notes that “there is no reason to doubt the global warming of the planet exists” and “the probability that human activities have been the dominant cause of global warming from the second half of the twentieth century is extremely high.” At the G7 summit held in Germany in 2015, a new long-term target was agreed whereby greenhouse gas emissions would be cut by 2050 to the level of a range comprising 45-65% of the 2010 level. In the 2015 Paris Agreement, a long-term goal was set of reducing global warming by at least 2°C, an extent that can only be absorbed by the ecosystem, while an objective to reduce greenhouse gas emissions arising from human activities to effectively zero was decided.

In this way, global warming and climate change continue to worsen, and companies are being asked to enhance the sustainability of their activities through investing in infrastructure and industries by using resources more efficiently and by exploring the development of new technology and industrial processes that take into account the environment and clean technology. The Company has been developing carbon capture and storage (CCS) technology to help reduce greenhouse gases and is promoting a variety of initiatives both in Japan and overseas.

What is CCS?
CCS is an abbreviation for Carbon dioxide Capture and Storage. In order to build richer lives, humankind has for many years dug deep into the earth to extract and use oil, coal and other fossil fuels. When fossil fuels are used, they emit CO2, which results in rising concentrations of CO2 in the atmosphere. This is said to be one of the main causes of global warming. CCS is a technology that seeks to capture the CO2 generated by factories and electric power stations before it is released into the atmosphere, transporting it and injecting it via boreholes into geological strata, spread deep beneath the surface, that are suitable for stable long-term storage. It is the trump card of global warming countermeasures, with promising ability to reduce CO2. Locations for storing CO2 are more than 1,000 meters under the surface and consist of storage strata of highly porous rocks such as sandstone. To prevent the CO2 from leaking out, it is necessary to have a thick layer of mudstone, called a confining layer, above the storage strata to prevent the passage of CO2.

The Company’s Thoughts on CCS
The Company’s core business in the oil and gas industries is intimately related to the emission of greenhouse gases, and we believe that we can leverage our technological expertise to make a significant contribution to the reduction of greenhouse gases. In particular, there is an extremely close alliance between the CO2 capture technology used in the LNG and natural gas plants that are the Company’s specialty, and CCS. Moreover, it was thought that this technology could make a compelling contribution to Japan, which requires that greenhouse gas reductions be conducted within the Clean Development Mechanism (CDM) framework. Based on such thinking, the Company leveraged the know-how amassed from CCS plants in Algeria and Australia, and in the test large-scale demonstration experiments in Japan, which started in 2004, sought orders for the iXC® and trial operations of aboveground equipment to separate, capture and inject CO2 included in the supplied gases, and handed it to the customer in February 2016.

Future Deployment of CCS Technology
The Company will use its HiPACT® high-pressure technology, which absorbs and separates CO2 from natural and synthetic gases, using high pressure to capture the CO2 (see column below) to implement CCS plant projects. In addition, the Company will apply this CO2 capture technology and use CO2 capture facilities for Integrated Gasification and Combined Cycle (IGCC) that use coal and heavy oil as raw materials (reformation into CO2-free power generation) and Enhanced Oil Recovery (EOR) to raise the efficiency of oil fields where productivity has decreased.

The Company will develop technology to deal with global warming, which is expected to rise going forward, thus contributing to the achievement of sustainable societies around the world.

The Company’s Track Record

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Construction Location</th>
<th>Capacity</th>
<th>Year of Completion</th>
</tr>
</thead>
<tbody>
<tr>
<td>In Salah Natural Gas Development Project</td>
<td>In Salah / Algeria</td>
<td>Total CO2: 5.7 Mtpa</td>
<td>2004</td>
</tr>
<tr>
<td>Tampaskeen Aboveground CCS Facilities Construction Work</td>
<td>Hokkaido / Japan</td>
<td></td>
<td>2016</td>
</tr>
<tr>
<td>Gorgon LNG Project</td>
<td>Barrow Island / Australia</td>
<td></td>
<td>On-going</td>
</tr>
</tbody>
</table>

HiPACT® Technology

**HiPACT**® Technology is a technology for absorbing and separating CO2 in natural and synthetic gases and capturing them at high pressure. This technology is used in the large-scale demonstration experiment to separate, capture and inject CO2 into the ground, enabling the reduction of greenhouse gas emissions. The Company will use its HiPACT® technology to capture and inject CO2 from natural and synthetic gases and to contribute to the achievement of sustainable societies around the world.

**Column**

**HiPACT® Technology**

- **HiPACT® Technology** is a technology for capturing carbon dioxide from natural and synthetic gases using high pressure to capture the CO2 and separate it.
- **What is CCS?**
  - CCS is an abbreviation for Carbon dioxide Capture and Storage.
  - CCS is a technology that seeks to capture CO2-generated by factories and electric power stations before it is released into the atmosphere, transporting it and injecting it via boreholes into geological strata, spread deep beneath the surface, that are suitable for stable long-term storage.
- **What are the advantages of HiPACT® technology?**
  - **Excellent CO2 absorption performance**
  - **Excellent high-temperature durability**
  - **Reduction of energy expenditure and equipment cost for CCS**

**Examples of use**

- CO2 capture facilities for Natural gas plants and LNG (Liquefied Natural Gas) plants
- CO2 capture facilities for plants that manufacture ammonia, urea, hydrogen, acetic acid, methanol and substitute natural gas (SNG) via synthetic gases
- CO2 capture facilities for Integrated Gasification and Combined Cycle (IGCC) that use coal and heavy oil as raw materials (reformation into CO2-free power generation)
Total engineering business — Review of operations

In fiscal 2015 the economic slowdown in developing countries and the excess supply of oil resulted in continued stagnation in oil prices. In such conditions, gas and oil-producing countries as well as the major oil producers etc. reviewed some of their capital investment plans, leading to continued poor visibility for the environment in which the JGC Group operates. On the other hand, against the background of population growth and economic expansion in developing countries, global demand for energy is expected to continue rising and in some regions and countries planning for projects directed toward internal demand, primarily oil and gas-related, is progressing steadily.

Faced with this environment the Company worked to win orders in Japan, the Middle East, Africa, Southeast Asia, the North American region, and Russia/OIS etc., and won oil and gas-related projects in Southeast Asia and in the Middle East etc., as well as mega-solar projects and so on in Japan; but consolidated orders came to only 320.6 billion yen.

As for oil prices, conditions still do not allow for optimism, but from the tail-end of fiscal 2015 they have been on a recovery trend and in fiscal 2016 we have seen some favorable signs, such as an increase in business inquiries. Going forward, the Company will use its entire strength to work on sales activities and win superior projects.

Masahiro Aika

Executive Officer, Senior General Manager, Global Marketing Division

Review of Operations by Segment

 Fiscal 2015 Major Project Orders Received

<table>
<thead>
<tr>
<th>Project Name</th>
<th>Date Order Received</th>
<th>Customer/Contractor</th>
<th>Contracting Entity</th>
<th>Contract Value</th>
<th>Service Ordered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Petrochemical Complex Project</td>
<td>September 2015</td>
<td>PTTGC America LLC</td>
<td>Joint venture between group company, JGC America, US-based Bechtel Corporation, and Samsung Engineering, headquartered in South Korea</td>
<td>Not disclosed</td>
<td>Front End Engineering and Design</td>
</tr>
<tr>
<td>Refinery Upgrade Project</td>
<td>November 2015</td>
<td>PT Pertamina</td>
<td>Consortium between JGC and group company, JGC Indonesia</td>
<td>Approx. 30 billion yen</td>
<td>EPC (Engineering, Procurement, Construction)</td>
</tr>
<tr>
<td>Gas Processing Plant Project</td>
<td>January 2016</td>
<td>Bahri National Gas Expansion Company</td>
<td>JGC alone</td>
<td>Approx. 40 billion yen</td>
<td>EPC (Engineering, Procurement, Construction and Commissioning)</td>
</tr>
<tr>
<td>Gas Processing Plant Project</td>
<td>March 2016</td>
<td>PT MEDCO E&amp;P MALAKA</td>
<td>Joint venture between group company, JGC Indonesia and local contractor PT ENDEKA INTO INDUSTRI</td>
<td>Approx. 27 billion yen</td>
<td>EPC (Engineering, Procurement, Construction)</td>
</tr>
<tr>
<td>Mega-solar power plant construction project</td>
<td>March 2016</td>
<td>Kansai Nishi Solar, LLC</td>
<td>JGC alone</td>
<td>Not disclosed</td>
<td>EPC (Engineering, Procurement, Construction)</td>
</tr>
</tbody>
</table>

Projects in our oil and gas business segments in fiscal 2015 included large-scale LNG projects in Australia and Russia; an LNG project in Indonesia; oil refinery projects in Vietnam, Kuwait, and Saudi Arabia; a gas-processing project in Qatar; and an ethylene project in the US. All projects currently underway, including our large-scale LNG projects in Australia and Russia, are proceeding smoothly.

However, the completion of work on the ethylene complex project in the US has been delayed six months by poor weather conditions, and unfortunately we recorded a loss for the second quarter of the fiscal year ending March 2017.

Individual Projects

Construction work on our large-scale LNG projects in Australia and Russia, employing modular construction – a new approach for us – is approaching its peak phase. Modular construction involves the assembly of functional units in different parts of Asia and then transporting them by large container ships to the construction site, where the plant is completed. We successfully completed the Indonesia LNG project by the end of 2015. While our gas processing plant project in Qatar recorded a loss in the fiscal year ended March 2016 due to factors including increased construction costs resulting from extension of the completion date, the project was completed with no further loss in profits. Profit margins have worsened in our oil refinery projects in Vietnam and Saudi Arabia due to increases in construction-related costs, but strict cost and schedule management measures continue being put into effect, and we expect to complete the project in Vietnam within the fiscal year ending March 2018.

Status of major Projects — Oil & Gas

At present, liberalization of the electricity market in Japan is promoting the entry of companies other than traditional power companies – for example oil companies – to the electricity industry. Investment in renewable energy is also continuing, spurred by a system for the fixed-price purchase of power that has been established to promote the use of renewables.

In our infrastructure business segment in fiscal 2015, we were commissioned for a variety of domestic projects, including a range of generation facilities including solar facilities, a pharmaceutical plant construction project in which there has been continuous investment, and a hospital construction project. Within Japan, we conducted projects in the area of power generation, including the construction of an integrated coal gasification combined-cycle facility, and in the area of life sciences, including the construction of a pharmaceutical manufacturing plant and a hospital.

JGC’s medium-term business plan, Beyond the Horizon, which commences from fiscal 2016, seeks to expand our business domain into the area of infrastructure, including power generation and the life sciences.

In fiscal 2016, we are actively working to expand our business into the area of power generation, and have already secured a variety of projects, including a coal-fired thermal power plant in the Philippines, and a biomass generation facility and a solar facility in Japan.

Status of major Projects — Infrastructure Business Segment
**PROJECT 01**

**Ichthys LNG Project**

In a first for a Japanese company in a large-scale LNG project, INPEX Corporation is acting as operator and driving the development work, while JGC is the leader of the joint venture entrusted with executing the EPC work.

For this project a modular construction approach is being applied wherever possible, in which the related functional units (modules) are divided up and manufactured in a module yard at a different location than the construction site, then after transportation by large ship are finally assembled on the construction site. When applying modular construction methods, sophisticated handling of multiple module yards, logistics, and works supervision at the construction site etc. are required and it is JGC, with its high-level design and project management capabilities as a major LNG contractor, that is leading this project.

Currently the manufacturing of the modules, which has been taking place at eight separate locations in parallel around the world, is almost complete and we are approaching the crucial state of transporting each module by large ship to the construction site for installation. While maintaining thorough safety management processes at the plant construction site, we will work with all our strength to bring the project to a successful conclusion.

**Project Overview**

- **Structure**: The JKC joint venture will carry out EPC (engineering, procurement, construction) services related to the Ichthys LNG plant for the Ichthys LNG project led by INPEX Corporation.
- **Location**: Darwin, Australia
- **EPC Contract Signed**: January 2012

<table>
<thead>
<tr>
<th>Services</th>
<th>EPC (Engineering, Procurement, Construction)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer</td>
<td>Ichthys LNG Project (With equity investment from INPEX Corporation and France's Total S.A.)</td>
</tr>
<tr>
<td>Project Execution Structure</td>
<td>Joint venture comprising the Company, JGC, KBR, and Chiyoda Corporation (JKC)</td>
</tr>
</tbody>
</table>

**PROJECT 02**

**Yamal LNG Project**

In the local language the name of this project means “the farthest point” and it is thought that it contains more than 20% of the world’s natural gas reserves. This project is advancing at Sabetta in the Yamalo-Nenets autonomous region of the Russian Federation, on the Yamal peninsula within the Arctic Circle. It is the second project for the country and it is currently also the largest planned LNG project in the country.

In order to achieve prompt delivery of construction work in this extreme location, where temperatures in winter can fall to -50°C, the project uses a full modular construction approach. With design for extreme cold, management of fabrication yards responsible for manufacturing a total module weight of 560,000 tons, transportation along arctic sea routes created by icebreakers (some modules were successfully transported along the arctic sea routes during the summer season), followed by on-site work at “the farthest point” of Sabetta, this project presented a series of challenges unprecedented in their difficulty, but the Company has brought together everything it knows about project execution and continues to lead the project to a successful completion.

**Project Overview**

- **Structure**: Construction of three LNG facilities with processing capacity of 5.5 million tons, and related facilities
- **Location**: Yamal, Russia
- **EPC Contract Signed**: April 2013

<table>
<thead>
<tr>
<th>Services</th>
<th>EPC (Engineering, Procurement, Construction, and Commissioning)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer</td>
<td>JSC Yamal LNG (Financed by Novatek (Russia) and Total (France))</td>
</tr>
<tr>
<td>Project Execution Structure</td>
<td>Joint venture between JGC, Chiyoda Corporation, and Technip (France)</td>
</tr>
<tr>
<td>Project Overview</td>
<td>Construction of three LNG facilities with processing capacity of 5.5 million tons, and related facilities</td>
</tr>
<tr>
<td>Construction Location</td>
<td>Yamal, Russia</td>
</tr>
<tr>
<td>EPC Contract Signed</td>
<td>April 2013</td>
</tr>
</tbody>
</table>

**Catalyst and Fine Products Business — Review of operations**

In the catalysts and fine products business, shipments of hydrotreating catalysts rose due to strong demand for contract manufacturing and export projects, but due to stagnant demand in Japan, chemical catalyst shipments declined. In the fine products business, functional coating materials and optical communication components posted higher shipments, but abrasives for use with smartphone materials and ceramic-coating materials and optical communication components posted higher sales volumes. As a result, the catalysts and fine products business posted a small increase in net sales over the previous term, but profits declined.
ESG Management

In 2006, the United Nations published the Principles for Responsible Investment (PRI), which urged institutional investors to incorporate consideration of the environment, society and governance (ESG) in their investment decision-making process. Numerous institutional investors, in particular in the US and Europe, became signatories to the PRI, and the principles became entrenched among financial institutions and other institutional investors. In Japan, the movement to prioritize responsible investment was accelerated by the signing of the PRI by the Government Pension Investment Fund (GPIF), which manages public pensions, and attention has been focused on corporate ESG initiatives.

Basic Thinking regarding ESG

The JGC’s corporate philosophy, the JGC Way (see p.8), provides us with fundamental orientations and guidelines for the conduct of our business activities, and urges us to hold high ethical principles, respond to the needs of the community and our clients, respect diverse human resources, and utilize broad-ranging technologies as we strive to continuously increase our corporate value and to realize increased environmental and social value.

Based on our recognition that striving to embody the JGC Way as we pursue our business activities and engaging as a company in ESG-related initiatives are two sides of the same coin, we will continue to work via our business activities to realize ongoing increase in our corporate value.

In making disclosures regarding ESG in this report, we have referred to the Global Reporting Initiative (GRI), the fourth generation (G4) of Sustainability Reporting Guidelines, and the Sustainable Development Goals (SDGs) in accordance with the central stipulations of ISO 26000.

Linkage with core themes of ISO26000

- Consumer (Customer) Related Issues
  - Ensure fair marketing, information disclosure, and contractual business practices
  - Ensure consumer health and safety
  - Promote sustainable consumption
  - Provide services and support to customers, address complaints and resolve conflicts
  - Protect consumer data and privacy
  - Undertake education regarding access to essential services and enhance awareness

- Environment-Related Issues
  - Prevent pollution
  - Ensure the sustainable use of resources
  - Avoid and adapt to issues relating to climate change
  - Protect the environment and biodiversity while restoring natural ecosystems

- Organizational governance and fair business practice-related issues
  - Promote organizational governance
  - Prevent corruption
  - Promote responsible supplier management
  - Engage in fair competition
  - Promote social responsibility across the value chain
  - Support property rights

- Respect human rights and engage in proper labor practices
  - Promote employment and engage in proper employment activities
  - Ensure fair labor conditions and social protection
  - Promote dialog with society
  - Ensure labor health and safety
  - Ensure labor rights and social protection
  - Create workplace human resource education and training

- Local Communities
  - Participate in community events and contribute to the growth and development of local communities
  - Engage in educational and cultural pursuits
  - Create employment opportunities and develop skills
  - Develop technologies and promote access
  - Create prosperity and income
  - Promote sound health and welfare
  - Undertake social investment
Interview with the Chairman

Corporate governance for continuous growth

Chairman and Representative Director

Please explain the positioning of corporate governance activities within the JGC Group.

In recent years, as typified by the drafting and application of Japanese versions of stewardship code and corporate governance codes, the environment surrounding corporate governance in Japan has changed dramatically, and I have experienced for myself the rise in required standards for fairer, more transparent, and more expeditious decision-making. Since the Company began applying the corporate governance code in June 2015, we have observed every item of the regulations, such as by checking each point, electing multiple independent outside directors, and establishing an external point of contact for whistle-blowers, but we will continue to work to understand the spirit of the code and to effect further improvements. Ensuring the fairness, transparency and efficiency, among others, of management, putting in place a framework that has the trust of society, and realizing sustained improvements in business value are some of the most important issues in management. Faced by the changes in the environment surrounding corporate governance and the rise in required standards, rather than reacting passively we should seize the opportunity to enhance corporate value by maintaining a constructive response.

Please summarize for us the governance framework of the JGC Group and the thinking behind it.

JGC is a company with a board of directors and an audit & supervisory board. It has also introduced an executive officer system in order to clarify the authority and responsibilities involved in the execution of business, as well as encouraging more prompt and more efficient decision-making and execution of business by management. The board of directors comprises 10 directors including two outside audit & supervisory board members, with five audit & supervisory board members including three outside members also attending. With the primary aim of securing more expeditious execution of business, from July 2016 onward meetings of the board of directors will be held once a month instead of twice a month. While the number of meetings has fallen, by revising the rules to adopt a policy of fuller reporting of items by the management team, the supervisory function of the board of directors has, if anything, been strengthened. In addition, with regard to the items deliberated by the board of directors, by rearranging these with the separation of the supervision and execution of duties in mind, we have achieved a structure that allows the board to focus more on the medium to long-term strategy it should be concentrating on, alongside the supervision of management. Because the management of the Company is required to have sophisticated knowledge and understanding of engineering as well as deep familiarity with international business markets, I consider the current governance structure to be reasonable, but we will also continuously discuss the approach we should take at future meetings of the board of directors.

What function do the two outside directors fulfill?

Since the 117th shareholders’ meeting in 2013, Shigeru Endo has played an important role as outside director, drawing extensively on his service background as ambassador extraordinary and plenipotentiary to Saudi Arabia and Tunisia and his abundant experience and knowledge of the Middle East, which constitutes the primary business market for the Company, to offer appropriate advice and to discharge in full his supervisory function. Starting this year, Masayuki Matsushima takes on the role of second outside director, being a former executive director of the Bank of Japan and possessing plentiful experience and knowledge of international finance and corporate management. We anticipate that he will leverage his unique perspective to provide supervision and advice on such issues as financial arrangements for overseas projects and management of overseas subsidiaries.

What importance is assigned to dialog with shareholders and investors?

Recently, the social expectations of all our stakeholders. The Company recognizes the role that it should play as a corporate group that is committed to creating a more prosperous future for its clients, for people and for society through integrating its core capabilities and technical expertise to generate innovative solutions. A healthy corporate governance structure is the foundation the rest is built upon, and in the future we will promote further strengthening of corporate governance while striving with all our strength to meet the expectations of all our stakeholders.

Finally, what message would you like to convey to stakeholders from the perspective of governance?

There is a school of thought arguing that feedback from direct meetings between management and shareholders and investors opens the way to sustained growth and medium to long-term corporate value. I endorse this way of thinking and perceive it to be a key to the success of the Japanese style stewardship code and corporate governance codes. I, myself, at shareholders’ meetings of course but also in other situations, create as many opportunities as I can to speak directly to both domestic and overseas shareholders and investors and make efforts to actively share the valuable insights gained from this dialog with directors and employees at board meetings and other gatherings. The important opinions gleaned from these dialogues are reflected in the drafting of the new “Beyond the Horizon” medium-term management plan and in the shift towards multiple independent outside directors. Going forward, we will continue to facilitate constructive dialogs and link these to further innovation in management.
In the past year, JGC has conformed to the stipulations of the Corporate Governance Code, and worked to improve its governance. Going forward, these efforts will continue. I myself will continue to work with the Audit & Supervisory Board in overseeing the company’s management.

The discussions of the Board of Directors have become more dynamic. In addition to actively taking part in these discussions, I also offer advice based on my overseas experience and my personal network. In doing so, I hope to stimulate more focused efforts to gain an understanding of regional information that can assist in supporting JGC’s overseas business and to develop personal networks. I also participate in study groups and other activities for younger employees, and I learn a great deal from them in terms of awareness of the trends of the times.

We should be sensitive to the ideas and orientations of young people. I am paying attention to their potential to provide new perspectives on JGC’s strategy.

It is a difficult struggle for a company to survive over the long term. This is not related to the size of the company. We cannot say that a company is safe just because it is large. JGC is continuing in its efforts to shed its former identity and become a global company, and, in a certain sense, the critical moment is right now. Results are essential. Many issues must be faced in order to realize them. The period during which a company moves into new business areas is a particularly fraught time. However, difficulties in themselves make JGC stronger. This summer, JGC took decisive action in relation to organizational reforms. When the new medium-term business plan is completed, I expect to take pleasure in discussing the successful outcomes with you all.

Outside directors, naturally enough, are not omnipotent, and in fact are absolute amateurs when it comes to the company’s operations. What, then, can be expected from outside directors? I believe that what can be expected are frank opinions regarding things that people inside the company don’t notice, or, if they do notice, may hesitate to talk about because of established practice or the boundaries between departments. In such cases, rather than simply relying on an outsider’s perspective, outside directors make use of the experience and knowledge gleaned from their previous positions, and in addition to integrating the discussions held by the Board of Directors, make the decision-making process panier and more robust.

A fusion of global strategy and groundbreaking technologies will be essential for 21st century management. What will be demanded of JGC will be the dynamic reconfiguration of the human resources and the management system that will realize this fusion, in response to changes in the business environment. It is my hope that I will be able to make a constructive contribution, even in a small way, to the implementation of “Beyond the Horizon” as a trusted advisor to the company.

My Responsibilities as an Outside Director

Masayuki Matsumiya
Outside Director

The world is at a major historical turning point, and reading the future would be an extremely difficult task even if one possessed second sight. However, being paralyzed by uncertainty does not lead to corporate growth. It is important to make careful determinations, but it is also necessary for JGC to actively challenge itself in unknown areas, and to take the risks involved. This is all the more reason for the company to increase the transparency of its management and clarify its responsibilities towards the future.
Corporate Governance

JGC is a company with a board of directors and an audit & supervisory board. We are also adopting the executive officer system in order to clearly define the responsibility and authority for the execution of corporate business while also seeking to make management decision-making and the execution of business faster and more efficient. We have further appointed an outside director and outside audit & supervisory board member who satisfy the requirement for independent officers so as to strengthen the supervisory function of management and enhance its transparency. The main elements of our corporate governance system are discussed below.

Board of Directors
The Board of Directors comprises 10 board members, including two outside board members. Five audit & supervisory board members, including three outside audit & supervisory board members, also attend board meetings. In principle, the Board of Directors meets once a month.

Audit & Supervisory Board
The Audit & Supervisory Board comprises five audit & supervisory board members, including three outside audit & supervisory board members. In principle, the Audit & Supervisory Board meets once a month.

Operations Steering Committee
The Operations Steering Committee in principle meets twice a month to deliberate on items relating to the execution of operations by JGC and the JGC Group. This committee includes audit & supervisory board members and other individuals nominated by the president.

Nominating Committee and Assessment Committee
The Nominating Committee and the Assessment Committee meet each month in principle once a year for the purpose of enhancing fairness and transparency in the selection of executive personnel and in the determination of compensation. Their membership includes outside directors.

Independent Auditor
The certified public accountants who audit JGC’s accounts are Michitaka Shishido and Yoshinori Saito of KPMG AZSA LLC. Five other CPAs and seven other individuals assist in carrying out these audits.

Reasons for adopting a Corporate Governance System

We believe that it is essential to boost the effectiveness of our auditing and supervisory functions through the appointment of audit & supervisory board members who are independent of our Board of Directors and possess a diverse range of specialized knowledge, at the same time realizing management that responds to the actual situation around us, centering on internal directors with advanced knowledge and expertise in the field of engineering and broad familiarity with business markets. For this reason, we have adopted a system in which we make use of an Audit & Supervisory Board.

Status of the Elements of Our Internal Control System

JGC’s Board of Directors decides on the basic principles of our internal control system, and revises them as necessary.

We have established an Internal Auditing Office, which checks, evaluates, and improves the effectiveness of the internal control systems of JGC and the JGC Group, and conducts individual audits as necessary. We have also formulated rules for the assignment of management authority, which regulate the duties and authority of our executives and employees, and make clear the system of responsibility for corporate management and the execution of operations. In addition to this, we have also formulated and implemented management rules for Group companies.

Executive Remuneration

In order to increase our global competitiveness as an engineering enterprise, we make it a basic principle to ensure that we possess the management human resources essential to the realization of ongoing increases in our corporate value. The remuneration received by our executives is decided within the limits of the scope established at the 113th Ordinary General Meeting of Shareholders held on June 26, 2009.

Remuneration for directors comprises fixed remuneration and performance-based remuneration. Fixed remuneration is determined by the position and duties of the director. Performance-based remuneration is set at a total figure of no more than 1% of net income for the fiscal year, and is offered as an incentive for the realization of improvements in business results. Based on our awareness of the fact that it takes several years from the receipt of an order to the completion of a project in our main business area, EPC services, we evaluate the operations supervised by each of our directors and the degree of contribution they make to results for each fiscal year with consideration of whether or not they contributed to increased corporate value from the medium- to long-term perspective. In order to ensure the objectivity of these evaluations of the degree of contribution of our directors to business results, they are reviewed by an Evaluation Committee that includes outside directors as members, and this Evaluation Committee makes the final decision. To help ensure that they are able to oversee management from a standpoint that is independent from the execution of operations, outside directors receive only fixed remuneration.

In consideration of the character of the Audit & Supervisory Board as an independent institutional body that oversees the execution of operations by directors in order to ensure the appropriate implementation of the corporate governance system, audit & supervisory board members also receive only fixed remuneration.

Initiatives in relation to the Corporate Governance Code

Japan’s Corporate Governance Code ensures transparency and fairness in decision-making (including fulfillment of the responsibility of explanations to stakeholders), and encourages rapid and decisive decision-making in order to realize “aggressive governance.” We are in full agreement with the goals of the Corporate Governance Code, and have applied all of the Code’s principles into the future, in accordance with the goals of the Code, we will continue to work to maintain a dialogue with our stakeholders, disclose accurate information in a timely fashion, and boost the effectiveness of our Board of Directors, seeking to realize sustainable growth and increase our corporate value over the medium- and long-term.
Basic Thinking regarding Compliance
As a member of the international community, the JGC Group believes that the compliance of all employees with the laws of Japan and all of the countries in which we do business and the conduct of fair and honest business in accordance with corporate ethics are essential to the pursuit of sustainable business development, and we are therefore working to prevent corruption and any form of inappropriate practice.

The Values of the JGC Group
In order to pursue lasting and sustainable business development, it is essential that the executives and employees of the JGC Group possess a shared system of values and conduct themselves in their daily activities in accordance with these values. By basing its activities on the following values, the JGC Group believes that it can maintain stable management over the long term, and manifest its corporate philosophy.

Values
- Integrity
  - We strive to ensure that our business conduct is conducted in accordance with the laws of all the countries in which we do business, and that our business is conducted in a manner that maintains the highest ethical standards, in accordance with the Corporate Ethics, as stated in the Corporate Philosophy.
- Responsibility
  - We are dedicated to transparent, effective and adequate internal control systems.
- Action
  - We are always ready to face the challenges of innovation, growth and change, and are dedicated to striving for safety in all areas of business.
- Participation
  - We are dedicated to ensuring that all employees are treated fairly and with respect, and that their ideas and opinions are valued.

Internal whistleblowing system
Seeking to promote early identification and amelioration or avoidance of compliance risks, JGC has established the JGC Compliance Hotline as a method of enabling employees to consult about and report compliance violations and activities that they suspect may result in compliance violations. When an employee reports or consults regarding a violation, an appropriate and timely response is put into effect following adequate investigation of the matter. The system ensures that the whistleblower will not suffer any negative effects.

Information Security Management
Handling large volumes of information (specification documents, drawings and reports) is part and parcel of EPC operations. Much of this information contains confidential data received from customers and business partners as well as materials regarding proprietary know-how. As an engineering contractor, it is a matter of course that we work to ensure that these information assets are properly protected.

Results and Initiatives
Group Compliance System
The JGC Group has established a Group compliance system that ensures that business activities conforming to the highest ethical principles are implemented throughout the entire Group. Appropriate response to issues has been ensured by the appointment of compliance officers by each Group company and the integration of compliance liaison functions. Each compliance officer evaluates the specific compliance risks of their company, and proposes and implements compliance measures suited to that company. Compliance officers from throughout the Group regularly come together in order to share information, and work to build and put into effect systems for the realization of greater awareness of compliance within the Group, cooperating as necessary.

Risk Management
Security Management Office
JGC employees and executives make approximately 5,600 overseas business trips per year, and approximately 500 JGC personnel are stationed overseas at any one time, in 30 different countries. Therefore, JGC has established Security Management Office available on a 24-7 basis to cope immediately with any risks employees stationed overseas might face, including natural disasters, acts of terrorism, war, pandemics, crimes, riots, traffic accidents, and illness.

Compliance
We pledge to maintain the highest ethical standards in integrity, and to ensure that information security is maintained at an appropriate level that satisfies the needs of customer and business partners.

Internal Whistleblowing System

- Challenge
  - We venture into new business fields, overcome technical hurdles and establish innovative methodologies.
- Create
  - We remain dedicated to developing results-focused, thoughtful solutions that meet the needs of our clients and benefit society as a whole.
- Integrate
  - We bring together a wide range of technologies, innovative tools and a diverse team dedicated to increasing value to all stakeholders.
- Deliver
  - We commit to overcoming obstacles through diligence and our “never give up” philosophy, and providing quality products and services to our clients and society.

- Professional Commitments
  - We undertake to foster mutual respect and support among all those involved in our activities and to emphasize the importance of safety for all.
- Integrity
  - We pledge to maintain the highest ethical standards in everything we do.

Information Security Management
Handling large volumes of information (specification documents, drawings and reports) is part and parcel of EPC operations. Much of this information contains confidential data received from customers and business partners as well as materials regarding proprietary know-how. As an engineering contractor, it is a matter of course that we work to ensure that these information assets are properly protected.

Meanwhile, it is equally important that the Company’s employees, customers and business partners have safe and ready access to essential information in order to ensure that projects scattered throughout the world are carried out smoothly. To this end, we actively undertake information investments which include security countermeasures. These investments help to ensure that information security is maintained at an appropriate level that satisfies the needs of customer and business partners.
**Management Structure (As of July 1, 2016)**

Chairman and Representative Director
Masayuki Sato

President and Representative Director
Koichi Kawana

Directors
- Yutaka Yamazaki*1
- Tsutomu Akabane
- Satoshi Sato
- Hiroyuki Miyoshi
- Masanori Suzuki
- Kiyotaka Terajima
- Shigeno Endo*3
- Masayuki Matsushima*3

Audit & Supervisory Board Members
- Toyohiko Shimada
- Yukihiro Makino
- Masao Mori*3
- Koichi Ohno*3
- Norio Takamatsu*3

Senior Executive Vice Presidents
- Hideaki Miura
- Hiroaki Fukuyama
- Hitoshi Kitagawa
- Takehito Hidaka
- Hiroyuki Miyoshi*3
- Kazuyoshi Muto
- Takashi Yasuda
- Tadao Takahashi
- Kenshi Yamazaki
- Masanori Suzuki*3

Senior Executive Officers
- Shigeno Abe
- Hiroshi Bunazawa
- Tokutaro Nakamura
- Hisakazu Ashihuchi
- Yasutoshi Okazaki
- Nobuhito Kobayashi
- Yasuhiro Okuda
- Aiko Yoshida
- Toru Arimya
- Masayasu Endo

Executive Officers
- Yuji Tanaka
- Takaya Matsumoto
- Masae Miyaji
- Terumitsu Hasebi
- Masahiro Aika
- Masato Miyamoto
- Aya Miyazaki
- Yasuharu Yamaguchi
- Takuya Hanada
- Takeshi Kawasaki
- Tetsuya Muramoto

*1 Outside director  *2 Outside audit & supervisory board member  *3 Also a director

**Environment**

**Basic Thinking regarding the Environment**

Today, against the background of the economic development of the emerging nations and global population increase, there is growing focus on the preservation of the global environment and the protection of biodiversity in our quest to realize sustainable societies. Based on our belief that engineering is intrinsically able to contribute to the preservation of the environment, the JGC Group recognizes the protection of nature and the realization of harmony with the environment in our business activities as essential management goals, and works actively to protect the global environment based on our Environment Policy.

**Environmental Policy**

JGC, as a professional engineering contractor, is committed to achieving environmental excellence in both its corporate operations and the services it renders its clients. To meet this commitment, JGC has hereby established the following principles, which shall be applied throughout its operations.

1. We shall endeavor to preserve the natural environment through the prevention of pollution and the conservation of energy and natural resources.
2. We shall provide our clients with technical solutions that conserve energy and natural resources, and reduce pollution and other adverse environmental impacts.
3. We shall fully comply with both environmental laws and regulations, and the environmental requirements of our clients.
4. We shall reduce the production of waste through measures that emphasize reuse and recycling.
5. We shall apply the following specific principles to the execution of our EPC projects:
   • Engineering Phase: We shall reduce the adverse environmental impacts of completed plants by minimizing the energy and resource consumption of each plant, and minimizing emissions and waste production.
   • Procurement Phase: We shall give preference to vendors that adopt environmentally-friendly manufacturing practices.
   • Construction Phase: During construction, we shall endeavor to minimize emissions, adverse impacts on the surrounding environment, energy and resource consumption, and waste production. Furthermore, we shall ensure that our subcontractors adopt work practices consistent with this principle.

Koichi Kawana
President and Representative Director,
JGC Corporation
July 31, 2015

**Safety and Environmental Consideration in Investment Projects and Research & Development**

In December 2003, JGC obtained the ISO 14001 certification from Lloyd’s Register Quality Assurance (LRQA). ISO 14001 is the international standard for environmental management systems, and we have renewed this certification three times. In November 2014, we completed the audit for maintaining ISO 14001 certification in the 2014 fiscal year. We are also taking steps for continuous improvement by setting annual activity targets geared to realization of our environmental policy, measuring the degree of achievement of those targets, and evaluating the results.

**Environmental Management Systems**

Chairman
President
Division
Quality Assurance, Safety & Environmental Office
HSEQ Committee
EMS Working Group
Working Group
Project Execution
Office Activity Execution
Engineering
Procurement
Construction
Environment

Environmental Improvement Activities in Line With Our Business

Since past environmental improvement activities by JGC have centered on reducing waste, paper, and electricity consumption at Headquarters, our task was to shift this focus to activities that fall in line with our actual business. To accomplish this, with the participation of the heads of all divisions, we reviewed our methods for identifying opportunities for environmental conservation and our procedures for target setting. What we achieved from these discussions was a common recognition of the following points.

- While we solve environmental issues through our original business and aim for sustainable development in society, it is important to link these processes to the creation of corporate value and improvements in competitiveness.
- While concerns over environmental issues are rising worldwide, JGC is contributing directly and indirectly to solutions through its original core business. JGC recognizes sustainability as an issue it has to address in this particular business.
- Important points that JGC must consider to develop itself sustainably are as follows:
  1. Implementing adequate operation and maintenance to prevent environmental problems from arising in the future.
  2. Continuing to implement improvements to increase corporate profits, while giving consideration to environmental matters.

With this common recognition, JGC continuously makes a concrete review of the significance of environmental objectives and targets, and implements environmental management activities from the following perspectives.

- Environmental management activities conducted with environmental objectives and targets are not separate from business; they are business.
- The operational policies of divisions and departments are determined for substantial performance improvements of the organization and its operations.
- Environmental targets and QMS quality targets can be matched together.

Environmental Improvement Activities in Line With Our Business

The JGC Group will continue to make every effort to achieve the target in fiscal 2016. On a positive note, outcomes were favorable with regard to Group targets for the number of leaks and CO2 emissions units, with both targets being reached.

Promotion of the Zero Emissions Initiative 2015

Since 2008, as part of our measures to fulfill our corporate social responsibility, the JGC Group has conducted initiatives to realize environmental improvements by seeking to reduce the harmful by-products of our business activities to zero. We are currently advancing our Zero Emissions Initiative, which is producing results in improving the environment.

The Zero Emissions Initiative 2015 covers the head office, the Research and Development Center, JGC construction sites in Japan and overseas, JGC Group companies in Japan and overseas, and domestic and international sales bases.

JGC Domestic Construction Sites

Environmental improvement targets were quantified in three areas: final disposal rate, number of leaks, and CO2 emission units.

- Final disposal rate of industrial waste: 3.7% for fiscal 2015, while we did not achieve our target of 2%; we realized a significant improvement over our figure of 5.5% for fiscal 2014.

The JGC Group will continue to make every effort to achieve the target in fiscal 2016. On a positive note, outcomes were favorable with regard to Group targets for the number of leaks and CO2 emissions units, with both targets being reached.

JGC Office

We are promoting environmental improvements in our offices by adopting an average annual rate of improvement of 1% or more in energy consumption (with fiscal 2013 as the base year) as an environmental target.

JGC Construction Sites

The JGC Group executes projects on a global scale in the areas of resource development, oil, natural gas, and the petrochemical industry, in addition to a broad range of other areas including the environment, chemicals, pharmaceuticals, water resources, and new energy. We strive to constantly consider the environment across the entirety of these projects. While the management of our overseas construction sites entails greater difficulties than that of our domestic sites, all employees share a thorough awareness of the necessity for management to ensure that contaminating materials do not escape outside the site, and put this awareness into practice. We do not just educate our own staff in this management awareness. As a prime contractor, we are involved with construction companies and other business partners, and conduct training for several thousand people for a single project. By this means, we are working to instill environmental awareness in every individual involved in our projects.

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Zero Emissions Initiative 2015 Environmental Performance

(JGC construction sites in Japan)

<table>
<thead>
<tr>
<th>Environmental Indicators</th>
<th>Units</th>
<th>Fiscal 2015</th>
<th>Fiscal 2016</th>
<th>Fiscal 2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final disposal rate of industrial waste</td>
<td>%</td>
<td>6.2 (Target)</td>
<td>5.1 (Target)</td>
<td>5.0 (Target)</td>
</tr>
<tr>
<td>Number of leaks of toxic substances, etc.</td>
<td>(0) (0) (0) (0)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>CO2 emission units</td>
<td>kg CO2/yr</td>
<td>1.36 (Target)</td>
<td>0.58 (Target)</td>
<td>0.63 (Target)</td>
</tr>
</tbody>
</table>

Recycling of Construction Waste

JGC aims at minimizing final waste through the rigorous implementation of the “Zero Emissions Initiative 2015.” In fiscal 2015, the final disposal rate of construction work in Japan was 3.7%.

On every site, before contracting disposal to a provider of intermediate waste treatment services, we confirm its recycling rate with our own industrial waste surveys. In particular, because there are significant differences between contractors regarding the treatment methods and recycling rates of construction sludge, we carefully compare treatment methods and costs. Before starting construction, we also establish an adequate waste separation plan based on the characteristics of waste to be generated. In addition, through the rigorous separation of wastes in accordance with this plan, we seek to improve the recycling rate during construction.

<table>
<thead>
<tr>
<th>Topics</th>
<th>Toward Zero Leaks</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

Results for Fiscal 2015 and Fiscal 2016 Initiatives

<table>
<thead>
<tr>
<th>Activity objective</th>
<th>Results for fiscal 2015</th>
<th>Assessment</th>
<th>Fiscal 2016 initiatives</th>
<th>Improvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation of Zero Emissions Initiative 2015</td>
<td>Reduction of CO2 emissions to Hyde Park Forest Level</td>
<td>E</td>
<td>S</td>
<td>Continued implementation of Zero Emissions Initiative</td>
</tr>
<tr>
<td>Environmental target</td>
<td>Setting of environmental targets is directly linked to fundamental business activities</td>
<td>G</td>
<td>G</td>
<td>Continuing promotion of environmental improvements directly linked to fundamental business activities</td>
</tr>
<tr>
<td>Enhancement of internal auditing</td>
<td>Implementation at all overseas sites (30 times in total)</td>
<td>E</td>
<td>G</td>
<td>Implementation multiple times at all overseas sites (A total of 57 times is planned)</td>
</tr>
<tr>
<td>Enhancement of biodiversity-related initiatives</td>
<td>Biodiversity-related initiatives directly linked to fundamental business activities</td>
<td>G</td>
<td>G</td>
<td>Integration into environmental improvement initiatives directly linked to fundamental business activities</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Assessment</th>
<th>G: Completely implemented</th>
<th>E: Extensively implemented</th>
<th>NG: Not yet implemented</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improvement</td>
<td>1. Substantial modification of environmental improvement measures</td>
<td>+ Continuation of environmental improvement measures</td>
<td></td>
</tr>
</tbody>
</table>

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Human Resources

Basic Thinking regarding Human Resources

Engineering companies do not possess assets like production facilities. For an engineering company, human resources are the company’s sole, and therefore most important asset. Personnel management that gives adequate consideration to human rights is fundamental to the JGC Group. The Group engages in no illicit employment practices such as the exploitation of child labor, and we are enhancing the diversity of our workforce through equitable employment measures encompassing non-Japanese personnel, seniors, the disabled, and female employees. We have established a range of measures related to the working environment, employee education, etc., and provide abundant opportunities to ensure that every employee is highly motivated and is able to display their ability and energy to the greatest possible extent.

Basic Thinking regarding Human Resources

Because the growth of each individual employee is essential to the growth of the company, we recognize the importance of striving to create an environment in which outcomes are continuously improved, and of realizing the simultaneous growth of the company and the individual. Via our various human resources-related systems, we seek to encourage our team members not to close themselves off within their respective specialized areas, but rather to take a step forward and engage in free and open discussions, creating relationships in which they are able to engage in friendly competition. Friendly competition pursued with a sense of pride and responsibility as professionals enables the creation of relationships of trust and a sense of camaraderie in which every individual recognizes every other as a professional. As a company, we are working to implement human resources-related initiatives that will foster a corporate culture in which every employee possesses this sense of pride and responsibility.

Diversity of Personnel

① Development of Global Recruitment
To further strengthen its involvement in projects undertaken on a multinational basis, JGC is promoting diversity in terms of the nationality of its employees. The Company is enterpriseing conducting recruitment drives at universities outside Japan and employing exchange students who come to Japan. At present, around 100 foreign employees from more than 20 different countries are employed at our Yokohama Head Office. With the continuing diversification of our workforce, we are dedicated to creating an environment in which diverse cultures are respected and everyone is able to work comfortably, for example by providing a prayer room for Muslim employees at our Yokohama Head Office.

② Giving Senior Staff Members a New Lease of Life
Based on the Revised Act for Stabilization of Employment of Older Persons, we have established a re-employment system for employees aged 60 and over, under which, in principle, every eligible employee wishing to make use of the system is re-employed.

From October 2015, we raised the mandatory retirement age to 65 in order to enable older employees who desire to do so to make use of their rich experience and specialized knowledge, and to create workplaces in which older employees can continue to work with peace of mind.

In addition to assuming the responsibility of continuing in employment, the senior staff member elements are passing on their techniques, providing advice, and making a major contribution to the training of young engineers.

③ Employment of the Disabled
Under a law promoting their employment, JGC actively works to comply with the legal ratio of employees with disabilities. Efforts are also being made to upgrade or improve workplace environments to cater for the type and degree of an individual’s disability.

④ Employment of Women
As part of our efforts in the area of diversity management (for example, employing non-Japanese and senior staff), we have been working to create a working environment that is friendly to women through measures including the establishment of a family care system. Via activities as part of the Kanagawa Women’s Career Support Group and informal discussions with female employees, we are working to further promote the use of the system in the future, boosting career awareness in our female employees, and supporting them in displaying their abilities and advancing to leadership positions. We are also pushing ahead with initiatives to increase awareness of our industry as one in which women can be involved, for example by holding company briefing sessions for new graduates aimed specifically at female students.

Work-life Balance

We have introduced a variety of measures to enable employees to care for their families and raise children, including systems that offer leave of absence, time off, and reduced working hours.

Since 2007, JGC has consistently been awarded the “Kuronin Mark” in recognition of its active support of child raising by its employees.

JGC Family Day, a day on which our employees’ children visit their parent’s workplace, has been held once a year since 2009.

In addition to developing their social awareness and sense of work and occupation, the aim of JGC Family Day is to help children gain an understanding of the jobs that their family members perform. The event is held for employees’ children in grades 4 to 6 of elementary school. In fiscal 2015, 23 children participated and experienced work, meetings, and other aspects of their parents’ working day.

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Employees and their children participating in JGC Family Day.

JGC Summer Time

JGC is implementing a campaign that encourages employees to start work an hour earlier in the morning and go home earlier in the afternoon during the summer months, when it is brighter for longer during the day. By making employees think about the time they leave work, this campaign seeks to create opportunities for each individual to change their thinking about their work style.

Together with other initiatives such as “No Overtime Day,” JGC Summer Time is proving to be of benefit in promoting work-life balance.

Health Checks, Mental Health

The Company implements, for example, partially subsidized medical checkups, including regular health checks that are held in-house twice a year, and actively works to improve awareness of health issues among its employees.

Besides requiring its managers to attend mental health workshops, interviews are conducted by industrial physicians at the on-site health management centers established within the Company.

JGC Techno College

As a further supplement to the personnel development programs JGC offers as a company, we established the JGC Techno College in 2001 as a place where motivated personnel could voluntarily participate in continuing education courses. Senior staff members volunteer to act as instructors, organizing and running the sessions, which allows them to pass on their skills and experience to younger employees. The College also holds lecture meetings, inviting prominent experts from Japan and overseas to give lectures. In fiscal 2015, the College held around 100 lectures, attended by a total of approximately 2,500 employees.

Worksite Training System

Since fiscal 2013, we have dispatched all new employees to construction sites both inside Japan and overseas for six months during their first year of employment. By actually seeing and experiencing the plants that represent JGC’s finished products and being involved in the construction stage at an early period in their careers, our new employees gain an understanding of how the engineering blueprints that they will be engaged in creating at our Yokohama Head Office are used in the plant construction process. They also experience the weight of the responsibility of ensuring quality and delivering plants to customers on schedule. At overseas construction sites, there are times when people from several tens of different countries come together to work. Among those present on the worksite, there will be customers, vendors supplying materials and equipment, and subcontractors involved in plant construction work, and each will have their own way of thinking and their own value systems. Amid this environment, despite the fact that the employees on dispatch are new, we require them to display the leadership and teamwork skills necessary to bringing everyone together to work towards the goal of completing the plant. Employees who have participated in this training process have indicated that while initially bewildered by the new environment, they felt a sense of responsibility towards the fulfillment of their duties, a sense of unity as a team built through daily face-to-face communication, and a sense of accomplishment in constructing a massive plant. JGC will continue to implement this training program for new employees.
Occupational Health and Safety

Basic Thinking regarding Occupational Health and Safety
For an engineering contractor, safety is one of the very highest priorities. In accordance with our Health and Safety Policy, JGC works under the leadership of top management to prevent accidents at work sites and traffic accidents involving our own employees and those of partner companies. The implementation of “Incident- and Injury-Free” (IF) initiatives at all of our construction sites over the past several years has had a remarkable effect on increasing awareness of occupational health and safety and traffic safety in domestic and overseas construction projects. We will continue in our efforts to entrench comprehensive work safety and traffic safety measures throughout the entire Group.

Safety and Health Policy
JGC Corporation places the highest priority on maintaining the safety and good health of all the personnel participating in or affected by JGC’s operations and preventing property losses as JGC serves its clients, industry and the world community.

In the fulfillment of the above-stated policy, JGC hereby declares:

First JGC’s management, employees and project employees are committed to continuing efforts for zero accidents, injuries and property losses.

Second JGC’s management encourages safety and health awareness among its employees on an ongoing basis.

Third Regardless of the location, nature and type as well as size of projects, all applicable safety and health rules shall be strictly applied on all of JGC’s projects.

JGC Corporation ensures that this policy, related directives and procedures are thoroughly communicated and implemented throughout the corporation and subcontractors engaged in JGC’s projects.

Koichi Kawana
President and Representative Director,
JGC Corporation
January 1, 2016

HSSE Organization

The HSSE* Committee deliberates on important safety matters for the entire group. It also reports to the Operations Steering Committee, which is chaired by the President. Matters decided by the HSSE Committee are promptly acted upon by the various company divisions.

An audit group appointed by the chairman of the HSSE Committee conducts health and safety audits at principal construction sites in Japan and overseas, and reports the audit results to the Operations Steering Committee.


HSSE Code of Conduct

Respect & Care

Every individual employee displays leadership to be aware of each other, look out for each other, appreciate each other, work safely and in good health, and returns home to their families without incident.

Safety Performance

As a result of continuous implementation of Group-wide measures to improve health and safety, our incident rate (ILD method) has remained at an average of around 0.5 for the past ten years, a lower level than the average incident rate of 1.3 for the construction industry as a whole. In addition, internal targets have been set for the annual Total Recordable Injury Rate* (TRIR; an indicator of workplace safety that includes accidents that do not entail lost work time) for domestic and overseas projects. The monthly status of achievement of these targets is announced within the company to boost safety awareness. In fiscal 2015, JGC’s TRIR was 0.34 for domestic projects, against a target of 0.060 or below, and 0.16 for overseas projects, against a target of 0.15 or below.

* The incident rate expresses the occupational accident frequency as the toll of occupational accidents that result in a loss of time or of work of more than one day per million hours worked. TRIR is the cumulative frequency of occupational injuries developed by OSHA in the United States. An incident is an occupational injury or illness which includes injuries not requiring time away from work, per 200,000 work hours.

The incident rates for JGC’s domestic projects and the Japanese construction industry as a whole (ILD Method)

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<tr>
<th>Year</th>
<th>JGC projects in Japan</th>
<th>Construction industry in Japan</th>
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<td>2007</td>
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Formulation of JGC Group Basic HSSE Guidelines

We formulated new JGC Group Basic HSSE Guidelines, and announced them to the Group in August 2015. The new guidelines were formulated to replace our HSE Vision 2015, which had been established to provide an image of the HSE initiatives that we sought to realize in 2015.

Our goal in this was to move beyond our traditional HSSE policy of setting time frames and projecting a vision of JGC’s HSSE initiatives in several years’ time. By establishing basic guidelines for universal HSSE, the new guidelines raise the level of HSSE initiatives throughout the Group.

Our Basic HSSE Guidelines comprise a HSSE slogan, an HSSE Code of Conduct, and an HSSE logo. They were announced by the president at the HSSE Conference he hosted on July 28, 2015.

Basic HSSE Guidelines

Everyone works safely and in good health, and returns home to their families without incident.

HSSE slogan
Respect & Care

HSSE Code of Conduct

- Obey rules willingly
- Be aware of each other, look out for each other, appreciate each other
- Every individual employee displays leadership

Topics

HSSE Conference Hosted by the President

As part of our measures to enhance HSSE initiatives, the president has hosted an HSSE Conference every July since 2007. Approximately 240 executives, project division heads, project department heads, project managers, and construction managers participate in the conference.

Following the President’s opening speech and the Zero- Accident Award Ceremony, presentations are given on a variety of safety themes, and are followed by group discussions. Through the conference, JGC seeks to enhance the health and safety awareness of officers and employees and demonstrate the leadership of top management in HSSE matters.
Occupational Health and Safety

HSSE Patrols by the President

At JGC, the president performs HSSE patrols of major business sites overseas, and works to raise awareness of safety among all employees working at the site. The purpose of these patrols is to have the president visit the business sites in person, underscoring the importance of having a high awareness of HSSE at JGC. In this initiative, in order to foster a culture of safety and promote safety education, the president patrols the business sites in person, warmly greeting the workers at the site, after a discussion to raise safety awareness with customers and business partners. In recent years, the president paid a visit to the construction site of the Donggi-Senoro LNG Project in Indonesia, held a discussion to raise awareness of HSSE with management at its customers and business partners, and patrolled the site to directly communicate to workers the importance of HSSE.

Introducing “HSSE Moments”

Since September 2010, JGC has introduced “HSSE Moments,” five-minute lectures given by a participant officer at the opening of meetings of the Operations Steering Committee, which are attended by officers and executives. The purpose is for management to take the lead in addressing HSSE matters, in consideration of JGC’s aim to be a No. 1 HSSE contractor. There are no restrictions on the topics of the lectures, and with presentations ranging from personal topics to items closely related to work procedures and topics of intellectual interest, the HSSE Moments are a splendid opportunity to boost awareness of HSSE throughout the company via a wide range of subjects of discussion.

Safety Day Campaign

From June to July every year, JGC conducts a Group-wide campaign that focuses on traffic and construction site safety. In addition to JGC’s Head Office, this campaign covers all of the Group’s construction sites, offices, and affiliates in Japan and overseas. In fiscal 2015, initiatives included calling for the design of safety posters, requesting employees to carry Commitment Cards and record details of their HSSE efforts on them, and holding team-based safety committee meetings. This campaign is an ongoing effort to increase health and safety awareness among all Group employees.

Measures for Traffic Accident Prevention

JGC is strengthening its measures to prevent traffic accidents at domestic and overseas sites and bases. In fiscal 2010, we introduced a thorough set of guidelines for management of vehicle operation, including the Seven Golden Rules for accident prevention, a traffic safety management system, and the In-Vehicle Monitoring System (IVMS). We also revised the guidelines for the prevention of traffic accidents overseas. In addition, to continuously monitor the status of traffic safety measure implementation at sites both in Japan and overseas, JGC’s management conducts traffic safety audits and mandates the submission of Monthly Traffic Safety Reports and semiannual reports.

Introducing Commitment Cards

Commitment Cards are an ongoing effort to increase health and safety awareness among all Group employees. In the fiscal 2015 campaig, employees were able to record details of their HSSE efforts on them, and holding team-based safety committee meetings. This campaign is an ongoing effort to increase health and safety awareness among all Group employees.

Broadening the Scope of IIF and realizing an Unshakeable JGC Culture of Safety

JGC first became aware of the IIF program in 2008, while engaged in a large-scale gas project in Qatar. This experience demonstrated to us that the program enhanced management leadership and fostered a culture of safety, and as a consequence boosted results for safety. Reflecting this awareness, our HSSE Committee has made it mandatory to apply the IIF program to all major overseas projects. The IIF concept has also been carried over to our domestic projects under the name “JIF,” and, together with overseas HSSE initiatives, is contributing to fostering and further developing the culture of safety throughout JGC.

However, the path to reach this point has not been smooth, and we have faced numerous challenges. First, because it is no easy matter to grasp the essence of the IIF program through theoretical learning, we began a plan in which we have the managers of newly-commenced projects visit a site that provides a model example of IIF initiatives, in order to deepen their understanding of IIF through practical experience, enabling them to apply the concepts to their own project. In the area of employee education, we have also begun an IIF education program for all new employees that is conducted before and after their dispatch for onsite training programs. In this way, they engage in onsite training with an understanding of IIF, gaining experience of both theory and practice. The trainees participate in workshops to receive feedback when their onsite training is completed, giving them a grasp of the theoretical principles of leadership included in the IIF program, which they will later apply in their work duties. These plans are contributing to the entrenchment of an HSSE culture at JGC and to the broadening of IIF and JIF Fureai Undō initiatives.

In addition to these plans, in fiscal 2015 we began to focus efforts on IIF Health Checks. IIF Health Checks are clearly delineated from regular safety audits, and involve the review and evaluation of the status of IIF initiatives at each of JGC’s project sites by IIF experts. If problems are identified, the staff members conducting the review discuss concrete proposals for improvement with the relevant project staff members and put measures into effect, making the IIF Health Checks a plan that further enhances JGC’s culture of safety.

IF activities

IF activities are based on the idea of workers watching out for each other and ensuring that everyone involved in a construction project is able to return home safely, without incident. Safety is not something that is enforced, but a conscious decision made by each person involved in a project. By working to improve safety awareness, we foster a culture of safety throughout the whole corporate group. Everyone, from our managers in charge of a construction site to the workers at the site, play a vital role in ensuring the safety of all of those involved. IF is not set in stone such as a safety manual, but decided in accordance with conditions that vary from site to site, by the people working at the construction site. IF also serves to increase the motivation of each individual worker, because constant communication is at the root of these initiatives. In this close-up, we introduce some examples of IF at JGC’s construction sites in Japan and around the world.
The Four Priorities of Social Contribution Activities

Upon establishing priority areas for activities to make social contributions in ways that make effective use of what is uniquely characteristic of JGC, we are promoting efforts related to the following four topics.

Environment
To commemorate its 80th anniversary, JGC became a watershed partner in Kanagawa Prefecture’s Water Source Conservation Project in August 2008 and launched an environmental conservation project. In September 2013, a donation was made to Kanagawa Prefecture and the decision taken to continue as a forest renewal partner in the project for another five years. Through the project, employees of the JGC Group assist with watershed forest conservation while deepening their understanding of the role of watershed forests and the importance of coexisting with nature. Activities are carried out once a month, and during fiscal 2014 more than 200 employees participated in various events, including forest walking tours and aquatic wildlife observation tours, as well as special events held with the president and employees participating.

We also continue to put efforts into environmental activities, such as using forestry activities as part of the training for new graduates.

Science and Technology
Scientific experiment seminars are held for elementary school students every year at the Kitakyushu office of group company JGC C&C in Fukuoka Prefecture, in order to contribute to and strengthen relations with the local community. These seminars are so popular that the number of attendees exceeds the quota every year. In 2015, around 20 elementary school pupils carried out three experiments: “Using alginic acid and calcium chloride to create artificial salmon roe,” “Experiencing the world of -196°C using liquid nitrogen,” and “Electric jelly fish that floats using static electricity.”

As a chemicals manufacturer, JGC C&C provides an opportunity for children to deepen their interest in chemistry and find meaning in having an interest for things. Going forward, the company will continue these positive relationships with the local community and its social contribution initiatives.

Social Contribution
Since fiscal 2011, the Company has lent its support to the Yokohama City Board of Education for its “Fureai Concert - Fostering the Heart” event. This concert has been held since the 1998 fiscal year for all elementary and compulsory education schools (one class from year 4 to year 6) and the elementary sections of special needs schools, with the goal of sharpening the senses through appreciation of music and fostering the temperament and abilities necessary for a spiritually rich life. During this time about 3,100 children daily come to appreciate the music, a total of about 31,000 children. Every year there are performances from the Kanagawa Philharmonic Orchestra and organ recitals. The conductor and master of ceremonies give lighthearted and easy-to-understand explanations, so that children, parents, and members of the public can all enjoy the selections played while cultivating their knowledge of music.

Education
Through the JGC-S Scholarship Foundation, JGC contributes to the cultivation of scientists and the advancement of science and technology in Japan and overseas. The foundation was established in March 1968 with an endowment from JGC founder Masao Ono. Its principal undertakings include the provision of educational loans to Japanese university and graduate students majoring in scientific and technical fields, grants to foreign students studying in Japan, and research funding assistance for young researchers. As of fiscal 2014, the foundation has provided assistance to a total of 21,179 persons, through educational loans to 13,656 students and educational grants to 7,562 students (2,137 Japanese and 5,425 foreigners studying in Japan at their own expense). The foundation has also provided research funding assistance to a total of 2,162 young researchers.

Suppliers

Basic Thinking regarding Suppliers
We believe that it is essential for all companies cooperating in a project to have established cultures of quality and of safety, and, as a result, to be able to do it “First Time Right.” Companies that supply equipment for a project being conducted by JGC are not simply suppliers delivering equipment; they are important partners who meet the quality standards and deadline requirements of the project and, through price competitiveness, contribute to the project’s success. JGC works to establish relationships with all of its business partners while taking leadership as an engineering company.

Procurement Policy
We do not take the superficial route of pursuing lower prices for equipment and materials, but instead consider how best to reduce the total cost of the project from the construction of the plant to the final hand-off to the customer. We use the most up-to-date technology, market and supplier information and other such resources concerning equipment and materials as the basis to exercise leadership with suppliers and provide our customers with optimal procurement solutions.

Organization
JGC procurement activities are organized around a project procurement manager who exercises overall leadership over six teams comprised of staff responsible for equipment procurement and process management, a bulk team that is comprised of specialists with responsibility for procurement of bulk materials, and a logistics (cargo transport) team that is comprised of specialists in accomplishing the safe transportation of all equipment and materials.

Topics
Supporting Suppliers is the JGC Way

Manufacturers in emerging countries are eager to take on the challenge of producing equipment that is more difficult than they have previously tackled. At such times, engineers from the Company’s Vendor Technical Support Group (VTSG) join the manufacturer in question to get a feel for the manufacturing facilities and the capabilities of the designers, offering appropriate guidance and helping them achieve their new goals.

If a supplier causes quality problems, rather than terminating the relationship, it is in JGC’s corporate DNA to instead pursue the course of the problem together with the supplier and to support their quality improvement activities.

Our mission is to expand our “Absolute Safety Transportation” activities that aim at “Zero freight accidents,” “Zero accidents resulting in injury or death,” and “Minimizing the environmental burden of transportation,” in order to establish a “culture” of safety, and to foment a “culture” of quality by creating an environment in which quality is naturally generated rather than simply managing the quality of equipment and materials.

For these reasons, we will continue to demonstrate strong leadership going forward.

Supporting Suppliers is the JGC Way
Quality Management System

Basic Thinking regarding Quality Management System
In plant engineering, quality assurance is an essential element in realizing safe operation and stable production. Centering on a Quality Assurance Committee, JGC’s quality management system seeks to realize continuous improvement in quality. Headquarters and each of our divisions set quality targets, and we work proactively to resolve any quality problems, striving to make improvements and identifying fundamental causes in order to eradicate problems as quickly as possible.

Improved Performance by means of QMS
JGC obtained ISO 9001 quality management system (QMS) certification in 1993. At the time, QMS certification was essential, particularly for overseas projects, and we were engaged in operations for acquiring certification from a third-party certifying body and maintaining certification.

Since 2009, we have implemented drastic QMS reforms and promoted continuous improvement, led by the Quality Assurance Committee, with the aim of improving organizational performance as appropriate to the type of work performed.

Quality Assurance Committee
The Quality Assurance Committee reports directly to the President. It is chaired by a managing director, comprises executive-level general managers and meets once a month.

The Quality Assurance Committee implements various improvement strategies to ensure that the quality of the products and services we provide will consistently satisfy our customers, and evaluates the results to ensure that improvement is continuous.

The Operations Steering Committee, convened each year by the President, conducts a management review of the activities of the Quality Assurance Committee, and under the leadership of the President, it works towards continuous improvement of the organization.

Quality Policy
It is JGC’s purpose that, in realizing our Clients’ projects, we will fulfill our Clients’ needs in the optimal way by fully applying our knowledge and experience and by incorporating state-of-the-art technology.

In order to achieve this purpose, we affirm the following quality policy.

- We will deliver plants and services fully complying with agreed requirements as well as statutory and regulatory requirements, thus achieving our Client’s satisfaction and continuing their trust in JGC.
- We will continually improve the effectiveness of our quality management system.

Effective Improvements Through the PDCA Cycle
At JGC, we use the “Plan, Do, Check, Act” PDCA cycle to ensure continuous improvement, ensuring integration of our QMS with the actual functions performed, with the aim of improving substantive performance of our organizations and operations.

1. We ensure continuous improvement of operations and organizations by treating the operating policies of departments and sections as quality targets, identifying any organizational issues, and formulating (“Plan”) operating policies and action plans, implementing them (“Do”), evaluating them (“Check”) and improving them on the basis of evaluation (“Act”) each fiscal year.

2. The internal auditing conducted by each department is conducted by the general manager and by senior personnel and others nominated by the general manager who are familiar with the running of the department, and they provide instruction and support, pointing out any issues that need to be dealt with, enabling steady improvement to be made.

3. If issues relating to quality are discovered, we receive instruction from the Quality Assurance Committee to nip the problem in the bud by investigating its root cause and implementing preventive measures laterally throughout the company.

Role of the Quality Assurance Committee

1st JGC Quality Forum: “Quality is Our Value - KIZUKI”

The first JGC Quality Forum was held on January 19, 2016, with the participation of almost 20 domestic and overseas companies and approximately 50 invited guests.

Quality is not simply a matter of management, but also of the natural creation of an environment. JGC’s initiatives to cultivate a culture of quality (educational activities at lecture meetings, workshops with business partners, etc.) have prompted our business partners to formulate and implement their own concrete action plans, and by this means to foster cultures of quality tailored to their own company environments. We support these initiatives by periodically monitoring the details of activities and offering advice as necessary.

The JGC Quality Forum provides an opportunity for each company involved to present the details and outcomes of their quality-related activities. Participants share experiences of success, in addition to engaging in comprehensive discussion of areas in which expectations did not result in outcomes. With the participation of JGC engineers and executive staff, the total number of participants exceeded 200, and frank discussions ensued.

A South Korean welding joint manufacturer was selected to receive the prize for best presentation. The company had previously inflicted severe penalties on employees who contributed to quality problems, but then implemented activities to foster a culture of quality, eventually bringing in a “no-punishment” policy. The company now promotes the sharing of awareness of quality problems that might have been hidden, and efforts conducted by all employees to prevent quality problems from reoccurring.

All the participants in the Forum made a commitment to achieve further improvements in quality, and came back from the event with increased awareness. We will continue to support this fostering of new initiatives for the realization of increased quality into the future.

The participants in the Forum.
This table introduces our initiatives related to the environment, society, and governance (ESG) and our key performance indicators (KPI).

### Environment-related Initiatives
- Contribution to the realization of low-carbon society
- Ongoing implementation of traffic safety measures
- Enhancement of HSSE management system for HSSE leadership by top management
- Promotion of the Zero Defects Initiative

### Social Initiatives
- Promotion of diversity
- Support for employee career formation

### Initiatives related to human rights and labor practices
- Initiatives related to the promotion of information security
- Initiatives related to fair business practices

### Report on Environmental Initiatives (E)

#### ESG Highlights

<table>
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<tr>
<th>Initiative</th>
<th>Unit</th>
<th>Results for Fiscal 2011</th>
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<th>Results for Fiscal 2013</th>
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<td>Number of lost work days</td>
<td>Persons</td>
<td>20</td>
<td>27</td>
<td>32</td>
<td>27</td>
<td>22</td>
</tr>
<tr>
<td>- Rate of frequency of accidents accompanied by lost work time (Chambers)</td>
<td>%</td>
<td>50.0</td>
<td>68.0</td>
<td>68.0</td>
<td>68.0</td>
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<td>Persons</td>
<td>1</td>
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</tr>
<tr>
<td>- Number of fatalities</td>
<td>Persons</td>
<td>2</td>
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<td>Persons</td>
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<tr>
<td>- Number of restrictions on work</td>
<td>Persons</td>
<td>6</td>
<td>5</td>
<td>5</td>
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<td>5</td>
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<tr>
<td>- Number of conditions requiring specialized treatment</td>
<td>Persons</td>
<td>3</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Rate of frequency of recordable accidents (Chambers)</td>
<td>%</td>
<td>3.3</td>
<td>6.2</td>
<td>5.8</td>
<td>5.9</td>
<td>3.7</td>
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<tr>
<td>- Rate of frequency of accidents accompanied by lost work time (Chambers)</td>
<td>%</td>
<td>11.1</td>
<td>18.0</td>
<td>14.7</td>
<td>12.5</td>
<td>11.1</td>
</tr>
<tr>
<td>Number of accidents accompanied by lost work time</td>
<td>Persons</td>
<td>47</td>
<td>53</td>
<td>48</td>
<td>50</td>
<td>53</td>
</tr>
<tr>
<td>- Rate of frequency of accidents accompanied by lost work time (Chambers)</td>
<td>%</td>
<td>30.6</td>
<td>46.9</td>
<td>58.0</td>
<td>59.9</td>
<td>50.6</td>
</tr>
<tr>
<td>Number of lost work days</td>
<td>Persons</td>
<td>20</td>
<td>27</td>
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<td>27</td>
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<tr>
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<td>2</td>
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<td>0</td>
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<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Analysis of Performance and Financial Position

Our View of the Operating Environment
During the consolidated fiscal year under review, the economic slowdown in developing countries and the excess supply of oil resulted in continued stagnation in oil prices. In these conditions, gas and oil-producing countries as well as the major oil producers etc. reviewed some of their capital investment plans, leading to continued poor visibility for the environment in which the Group operates. On the other hand, against the background of population growth and economic expansion in developing countries, global demand for energy is expected to continue rising and in some regions and countries planning for projects directed toward internal demand, primarily oil and gas-related, is progressing steadily.

Results of Operations
In the consolidated fiscal year under review, the JGC Group posted net sales of ¥879,954 million (up 10.1% year on year), operating income of ¥49,661 million (up 67.0%), ordinary income of ¥52,047 million (up 16.0%), and net income attributable to owners of parent of ¥42,793 million (up 107.4% year on year).

Net Sales
Net sales were pushed up by the progress in projects accounted for on a percentage of completion basis, growing by ¥80,878 over the previous consolidated fiscal year to reach ¥879,954 million.

Cost of Sales and Selling, General and Administrative Expenses
Along with the rise in net sales, the cost of sales increased by ¥60,754 million over the previous consolidated fiscal year, to ¥806,995 million. Selling, general and administrative expenses rose by ¥203 million over the previous consolidated fiscal year, hitting ¥23,297 million.

Operating Income
Due to the increase etc. in total income for completed projects, operating income rose by ¥19,920 million over the previous year to ¥49,661 million.

Other Income (Expenses)
Other income (expenses) declined as a result of exchange losses etc. and dropped from ¥15,126 million (net) the previous consolidated fiscal year to ¥2,386 million (net), a decrease of ¥12,740 million.

Income before income taxes
Extraordinary income came to ¥7,609 million (net). A loss on valuation of investment securities etc. was posted, but the main factor was the reversal of the allowance for doubtful debts etc. As a result, income before income taxes for the consolidated fiscal year under review rose by ¥20,597 million to ¥59,657 million.

Taxes on Income
Income tax and other taxes declined by ¥6,668 million compared to the previous consolidated fiscal year, to ¥9,078 million. In addition, deferred taxes on income came to ¥7,610 million, leading to tax expenses (net) of ¥16,688 million.

Net Income attributable to owners of parent
The outcome was that net income attributable to owners of parent rose by ¥22,164 million over that of the previous consolidated fiscal year to hit ¥42,793 million.
Other Business

In Other business, we continue to roll out the large-scale solar power generation (mega-solar) operations etc. in Japan. On March 31, 2016, the Company transferred 100% of shares of JGC Information Systems Co., Ltd owned by the Company to Fujitsu Limited.

Financial Position

The financial position for the consolidated fiscal year under review was total assets of ¥6,089,782 million, representing a decrease of ¥29,972 million over the previous consolidated fiscal year. Net assets came to ¥4,193,673 million, an increase over the previous year of ¥31,176 million.

Balance sheet indicators for the Group were as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Current ratio (%)</td>
<td>173%</td>
<td>196%</td>
<td>252%</td>
</tr>
<tr>
<td>Fixed asset ratio (%)</td>
<td>65%</td>
<td>49%</td>
<td>45%</td>
</tr>
</tbody>
</table>

Notes: Current ratio: Current assets / Current liabilities
Fixed asset ratio: Net property and equipment / Total net assets

Cash Flow

On a consolidated basis, cash and cash equivalents for the consolidated fiscal year under review (hereinafter referred to as “net cash”), excluding the increase arising from new entities consolidated since the end of the previous consolidated fiscal, was ¥51,175 million lower, at ¥247,947 million. With regard to net cash used in operating activities, income before taxes on income was ¥59,657 million, but due to a fall in customer advances for projects in hand etc., the final result was a decline of ¥49,764 million. Net cash used in investing activities rose by ¥9,696 million, primarily due to sales of investment securities and the like. Net cash provided by financing activities fell by ¥4,274 million as a result of dividend payments etc.

Shareholders’ Equity and Shareholders’ Equity Ratio

<table>
<thead>
<tr>
<th>Shareholders’ Equity</th>
<th>Shareholders’ Equity Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>¥4,186 billion (FY)</td>
<td>60.2%</td>
</tr>
</tbody>
</table>

Cash flow indicators for the Group are as follows:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders’ equity ratio (%)</td>
<td>50.2%</td>
<td>50.8%</td>
<td>60.7%</td>
</tr>
<tr>
<td>Shareholders’ equity ratio (market basis, %)</td>
<td>121.5%</td>
<td>83.7%</td>
<td>61.6%</td>
</tr>
<tr>
<td>Interest-bearing liabilities to cash flow ratio (years)</td>
<td>0.1</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest coverage ratio (times)</td>
<td>319.5</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>
New Contracts by Business Sector

<table>
<thead>
<tr>
<th>Business Sector</th>
<th>March 31, 2015</th>
<th>March 31, 2016</th>
<th>Percentage of New Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNG projects</td>
<td>5,806</td>
<td>415</td>
<td>17.2%</td>
</tr>
<tr>
<td>Middle East projects</td>
<td>521</td>
<td>734</td>
<td>22.9%</td>
</tr>
<tr>
<td>Africa</td>
<td>47</td>
<td>409</td>
<td>17.2%</td>
</tr>
<tr>
<td>Asia</td>
<td>525</td>
<td>636</td>
<td>26.8%</td>
</tr>
<tr>
<td>Japan</td>
<td>1,320</td>
<td>860</td>
<td>28.8%</td>
</tr>
<tr>
<td>Other projects</td>
<td>565</td>
<td>548</td>
<td>18.3%</td>
</tr>
</tbody>
</table>

New Contracts by Industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>March 31, 2015</th>
<th>March 31, 2016</th>
<th>Percentage of New Contracts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and gas refining</td>
<td>417</td>
<td>1,511</td>
<td>40.9%</td>
</tr>
<tr>
<td>Petrochemicals</td>
<td>2,436</td>
<td>339</td>
<td>10.6%</td>
</tr>
<tr>
<td>Other industries</td>
<td>752</td>
<td>160</td>
<td>15.3%</td>
</tr>
</tbody>
</table>

Outlook for the Future

Total Engineering Business
Due to the effects of falling crude oil prices and other factors, it is expected that conditions will remain uncertain with regard to implementation of capital investment projects in the plant market. In addition, price competition is ongoing with other companies, particularly in Asia and Europe, and the adverse competitive environment is expected to continue in the next and subsequent fiscal years.

Analysis of New Contracts
In the fiscal year under review, orders received were ¥320,626 million.

Risks Impacting Operations

1. Risks with Overseas Causes
Overseas businesses generate more than 80% of the JGC Group’s total net sales. Such businesses are subject to country risks including economic risks and socio-political risks. Specific risks include political unrest, war, revolution, civil strife, terrorism, changes in economic policy or conditions, default on foreign debt, and changes in exchange and taxation systems. To minimize the effects on its businesses arising from these risks, 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 extreme than anticipated and projects are canceled, suspended, or delayed, the possibility of a negative impact on the Group’s performance arises.

2. Risks Affecting Project Execution
Most 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-fixed-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 project execution. When confronted with unforeseen impediments to the execution of a project including sudden steep rises in the costs of materials, equipment, machinery and labor, natural disasters and outbreaks of disease or if the JGC Group’s actions or a problem during project execution should cause a major accident, the profitability of a project can be adversely affected, which can have an impact on the JGC Group’s performance.

3. Risks Affecting Investing Activities
The JGC Group conducts investments in such areas as the oil and gas development business, the new fuel business, the power generation and desalination business, and the urban and infrastructure development business.

The Group conducts appropriate risk management by conducting risk assessment when making new investments and reinvestments and by performing timely monitoring of existing business. However, unanticipated events such as dramatic changes in the investment environment exemplified by sudden price changes for oil, gas and other energy resources as well as changes in estimated reserves can have an impact on the JGC Group’s performance.

4. Risks of Changes in Exchange Rates
Almost all of the JGC Group’s overseas sales are paid under agreements denominated in foreign currencies. To hedge the associated exchange rate risks, we have introduced countermeasures including executing project contracts denominated in multiple currencies, conducting overseas procurement, ordering in overseas currencies and entering into forward foreign exchange agreements. However, sudden exchange rate fluctuations could affect the JGC Group’s performance.
The accompanying notes are an integral part of these statements.
Consolidated Statements of Income

JGC CORPORATION
Years ended March 31, 2016 and 2015

(Millions of yen)

<table>
<thead>
<tr>
<th>Year ended March 31, 2016</th>
<th>Year ended March 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET SALES (Note 11)</td>
<td>¥ 873,955</td>
</tr>
<tr>
<td>COST OF SALES</td>
<td>806,996</td>
</tr>
<tr>
<td>Gross profit</td>
<td>72,959</td>
</tr>
<tr>
<td>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES</td>
<td>23,298</td>
</tr>
<tr>
<td>Operating income</td>
<td>49,661</td>
</tr>
</tbody>
</table>

OTHER INCOME (EXPENSES):

Interest and dividend income | 4,636 | 5,740 | 41,143 |
Interest expenses            | (719) | (453) | (6,381) |
Gain on sales of investment securities | 1,265 | 6 | 5,829 |
Gain on sales of affiliate securities | 4,227 | 920 | 37,513 |
Loss on impairment of fixed assets (Notes 11 & 18) | (1,601) | (4,852) | (14,741) |
Exchange (loss) gain, net     | (2,938) | 6,673 | (20,074) |
Equity in earnings of affiliates | 716 | 723 | 6,354 |
Reversal of allowance for investment loss | — | 589 | — |
Reversal of provision for guarantees | 5,294 | — | 46,683 |
Loss on provision for guarantees | (1,235) | (8,255) | (10,980) |
Loss on valuation of investment securities (Note 9) | (10,371) | (5,020) | (92,039) |
Reversal of allowance for doubtful accounts | 10,231 | — | 90,797 |
Gain on negative goodwill | — | 334 | — |
Other, net (Note 16)         | 731 | (2) | 6,487 |
Income before taxes on income and non-controlling interests in earnings of consolidated subsidiaries | 98,657 | 30,080 | 529,437 |

TAXES ON INCOME (Note 12):

Current | ¥ 9,279 | 15,748 | 80,573 |
Deferred | 7,810 | 8,036 | 67,536 |

NET INCOME | ¥ 42,968 | ¥ 20,848 | $ 381,328 |

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

JGC CORPORATION
Years ended March 31, 2015 and 2014

(Millions of U.S. dollars)

<table>
<thead>
<tr>
<th>Year ended March 31, 2016</th>
<th>Year ended March 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>NET INCOME</td>
<td>¥ 42,968</td>
</tr>
</tbody>
</table>

OTHER COMPREHENSIVE INCOME (Note 19):

Net unrealized holding gains on securities (Notes 9 & 17) | (3,204) | 3,404 | (28,470) |
Deferred losses on hedges (Note 10) | (46) | (363) | (406) |
Land revaluation (Note 14) | 174 | 336 | 1,544 |
Translation adjustments | (2,012) | 2,210 | (23,181) |
Remeasurements of defined benefit plans (Note 6) | (1,342) | (559) | (11,852) |
Share of other comprehensive income of affiliates accounted for using equity method | 3 | (1) | 26 |

TOTAL OTHER COMPREHENSIVE INCOME | ¥ (7,029) | ¥ 4,617 | $ (62,381) |

TOTAL COMPREHENSIVE INCOME | ¥ 35,939 | ¥ 25,465 | $ 318,947 |

Comprehensive income attributable to owners of JGC Corporation | ¥ 35,795 | ¥ 25,273 | $ 317,069 |
Comprehensive income attributable to non-controlling interests | ¥ 144 | ¥ 192 | $ 1,278 |

The accompanying notes are an integral part of these statements.

AMOUNTS PER SHARE OF COMMON STOCK:

Net income | ¥ 169.60 | ¥ 81.73 | $ 1.51 |
Cash dividends applicable to the year | ¥ 42.50 | ¥ 21.00 | $ 0.38 |

The accompanying notes are an integral part of these statements.
### Consolidated Statements of Changes in Net Assets

**JGC CORPORATION**  
Year ended March 31, 2016 and 2015

#### Balance at April 1, 2016

<table>
<thead>
<tr>
<th>Shares</th>
<th>Amount</th>
<th>Capital stock</th>
<th>Retained earnings</th>
<th>Treasury stock</th>
<th>Net unrealized gains on securities</th>
<th>Deferred losses on hedges (Note 13)</th>
<th>Translation reserve for land (Note 13)</th>
<th>Foreign currency translation adjustments</th>
<th>Remeasurements of defined benefit plans</th>
<th>Non-Controlling interests</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>259,203</td>
<td>¥ 25,031</td>
<td>¥ 25,657</td>
<td>¥ 32,727,770</td>
<td>¥ 6,478</td>
<td>¥ 6,689</td>
<td>¥ 51</td>
<td>¥ 5,542</td>
<td>¥ 4,384</td>
<td>¥ 10,811</td>
<td>7,636</td>
</tr>
</tbody>
</table>

#### Balance at April 1, 2015

<table>
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<tr>
<th>Shares</th>
<th>Amount</th>
<th>Capital stock</th>
<th>Retained earnings</th>
<th>Treasury stock</th>
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<th>Non-Controlling interests</th>
<th>Millions of yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common stock</td>
<td>259,053</td>
<td>¥ 23,511</td>
<td>¥ 23,511</td>
<td>¥ 25,607</td>
<td>¥ 3,207</td>
<td>¥ 2,583</td>
<td>(155)</td>
<td>(152)</td>
<td>(1)</td>
<td>4</td>
<td>259,053</td>
</tr>
</tbody>
</table>

#### Net changes during the year

<table>
<thead>
<tr>
<th>Shares</th>
<th>Amount</th>
<th>Capital stock</th>
<th>Retained earnings</th>
<th>Treasury stock</th>
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<th>Deferred losses on hedges (Note 13)</th>
<th>Translation reserve for land (Note 13)</th>
<th>Foreign currency translation adjustments</th>
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<td>(152)</td>
<td>(1)</td>
<td>4</td>
<td>259,053</td>
</tr>
</tbody>
</table>

#### Notes

- The accompanying notes are an integral part of these statements.
- The consolidated statements of cash flows includes the Consolidated Subsidiaries.

### Consolidated Statements of Cash Flows

**JGC CORPORATION**  
Year ended March 31, 2016 and 2015

#### Cash Flows from Operating Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income before taxes on income and Non-Controlling Interests in earnings of consolidated subsidiaries</td>
<td>¥ 59,657</td>
<td>¥ 30,063</td>
<td>¥ 529,437</td>
<td></td>
</tr>
<tr>
<td>Adjustments to reconcile income before taxes on income and Non-Controlling Interests in earnings of consolidated subsidiaries to net cash used in operating activities:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>9,434</td>
<td>10,299</td>
<td>83,835</td>
<td></td>
</tr>
<tr>
<td>(Decrease) increase in allowance for doubtful accounts</td>
<td>(10,209)</td>
<td>3,957</td>
<td>(50,602)</td>
<td></td>
</tr>
<tr>
<td>(Decrease) increase in reserve for losses on contracts</td>
<td>(4,944)</td>
<td>14,512</td>
<td>(132,623)</td>
<td></td>
</tr>
<tr>
<td>Increase in net defined benefit plans</td>
<td>4,067</td>
<td>831</td>
<td>73,113</td>
<td></td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>(4,436)</td>
<td>(5,740)</td>
<td>(41,143)</td>
<td></td>
</tr>
<tr>
<td>Interest expense</td>
<td>711</td>
<td>461</td>
<td>6,381</td>
<td></td>
</tr>
<tr>
<td>Exchange loss (gain)</td>
<td>4,270</td>
<td>(5,982)</td>
<td>37,855</td>
<td></td>
</tr>
<tr>
<td>Equity in earnings of affiliates</td>
<td>710</td>
<td>(723)</td>
<td>(8,354)</td>
<td></td>
</tr>
<tr>
<td>Gain on sales of investment securities</td>
<td>(5,312)</td>
<td>924</td>
<td>(47,142)</td>
<td></td>
</tr>
<tr>
<td>(Gain) Loss on sales of property and equipment</td>
<td>(201)</td>
<td>45</td>
<td>7,794</td>
<td></td>
</tr>
<tr>
<td>Loss on sales and disposal of property and equipment</td>
<td>89</td>
<td>92</td>
<td>730</td>
<td></td>
</tr>
<tr>
<td>Loss on impairment of fixed assets</td>
<td>1,901</td>
<td>4,052</td>
<td>14,741</td>
<td></td>
</tr>
<tr>
<td>Increase in notes and accounts receivable</td>
<td>(40,313)</td>
<td>(50,333)</td>
<td>(375,532)</td>
<td></td>
</tr>
<tr>
<td>(Increase) Decrease in inventories</td>
<td>(6,450)</td>
<td>7,557</td>
<td>(63,910)</td>
<td></td>
</tr>
<tr>
<td>Decrease (Increase) in other assets</td>
<td>4,067</td>
<td>(4,655)</td>
<td>36,093</td>
<td></td>
</tr>
<tr>
<td>Increase (Decrease) notes and accounts payables</td>
<td>3,385</td>
<td>(1,825)</td>
<td>29,775</td>
<td></td>
</tr>
<tr>
<td>(Increase) Decrease in advances received on uncompleted contracts</td>
<td>(47,451)</td>
<td>(78,463)</td>
<td>(421,202)</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>4,204</td>
<td>18,823</td>
<td>37,842</td>
<td></td>
</tr>
<tr>
<td>Subtotal</td>
<td>(39,305)</td>
<td>(95,946)</td>
<td>(402,399)</td>
<td></td>
</tr>
<tr>
<td>Interest and dividends received</td>
<td>5,110</td>
<td>6,456</td>
<td>49,350</td>
<td></td>
</tr>
<tr>
<td>Interest paid</td>
<td>(746)</td>
<td>(441)</td>
<td>(8,821)</td>
<td></td>
</tr>
<tr>
<td>Income taxes paid</td>
<td>(38,714)</td>
<td>(29,093)</td>
<td>(77,778)</td>
<td></td>
</tr>
<tr>
<td>NET CASH PROVIDED BY OPERATING ACTIVITIES</td>
<td>(49,792)</td>
<td>(11,417)</td>
<td>(441,468)</td>
<td></td>
</tr>
</tbody>
</table>

#### Cash Flows from Investing Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payments for purchases of property and equipment</td>
<td>(3,596)</td>
<td>(9,475)</td>
</tr>
<tr>
<td>Proceeds from sales of property and equipment</td>
<td>1,424</td>
<td>156</td>
</tr>
<tr>
<td>Proceeds from purchases of investment securities</td>
<td>(8,397)</td>
<td>7,793</td>
</tr>
<tr>
<td>Proceeds from sales of investment securities</td>
<td>17,901</td>
<td>1,840</td>
</tr>
<tr>
<td>Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation</td>
<td>1,872</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>(2,266)</td>
<td>(10,689)</td>
</tr>
<tr>
<td>NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES</td>
<td>14,512</td>
<td>140</td>
</tr>
</tbody>
</table>

#### Cash Flows from Financing Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase in short-term loans</td>
<td>3,071</td>
<td>10,340</td>
</tr>
<tr>
<td>Proceeds from long-term loans</td>
<td>4</td>
<td>6,274</td>
</tr>
<tr>
<td>Repayments of long-term loans</td>
<td>(1,731)</td>
<td>(823)</td>
</tr>
<tr>
<td>Payments for purchase of treasury stock</td>
<td>(75)</td>
<td>(27)</td>
</tr>
<tr>
<td>Cash dividends paid</td>
<td>(5,302)</td>
<td>(11,741)</td>
</tr>
<tr>
<td>Cash dividends paid to non-controlling interests</td>
<td>(150)</td>
<td>(134)</td>
</tr>
<tr>
<td>Other</td>
<td>(155)</td>
<td>(160)</td>
</tr>
<tr>
<td>NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</td>
<td>(6,370)</td>
<td>3,937</td>
</tr>
</tbody>
</table>

#### Net Cash Provided by (Used in) Financing Activities

<table>
<thead>
<tr>
<th>Description</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</td>
<td>(5,730)</td>
<td>3,306</td>
</tr>
<tr>
<td>NET DECREASE IN CASH AND CASH EQUIVALENTS</td>
<td>(67,776)</td>
<td>(37,950)</td>
</tr>
<tr>
<td>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</td>
<td>297,798</td>
<td>(35,353)</td>
</tr>
<tr>
<td>INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARIES</td>
<td>1,416</td>
<td>140</td>
</tr>
<tr>
<td>CASH AND CASH EQUIVALENTS AT END OF YEAR (Nota 15)</td>
<td>¥ 247,584</td>
<td>¥ 297,196</td>
</tr>
</tbody>
</table>

*The accompanying notes are an integral part of these statements.*
Notes to Consolidated Financial Statements

Note 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(a) BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS
The accompanying consolidated financial statements of JGC Corporation (Nikkei Kabuakiri Kaisha, the “Company”) and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of consolidated overseas subsidiaries are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified four items as applicable. The accompanying consolidated financial statements have been translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Act. 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.

In addition, certain reclassifications have been made to present the accompanying consolidated financial statements in a format which is more familiar to readers outside Japan. Furthermore, certain reclassifications of previously reported amounts have been made to reconcile the consolidated financial statements for the year ended March 31, 2015 to the 2016 presentation.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan. Furthermore, certain reclassifications of previously reported amounts have been made to reconcile the consolidated financial statements for the year ended March 31, 2015 to the 2016 presentation.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan. Furthermore, certain reclassifications of previously reported amounts have been made to reconcile the consolidated financial statements for the year ended March 31, 2015 to the 2016 presentation.

(b) PRINCIPLE OF CONSOLIDATION
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, 2016 and 2015, was as follows:

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consolidated subsidiaries</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Affiliates under the equity method</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

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 and retained earnings from those investments not accounted for under the equity method is immaterial.

At the year ended March 31, 2016, JGC Information Systems Co., Ltd. is excluded from the scope of consolidation because all of the shares were sold and PT. JGC INDONESIA was included in the scope of consolidation because its effect on the consolidated financial statement became significant.

At the year ended March 31, 2015, two of subsidiaries, Kamogawa Mirai Solar Co., Ltd. and JGC Gulf Engineering Co., Ltd., were included in the scope of consolidation because their effect on the consolidated financial statement became significant.

(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 FOREIGN SUBSIDIARIES AND AFFILIATES
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 accounted for in U.S. $1. The conversion translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at this or any other rate of exchange.

(e) UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN SUBSIDIARIES FOR CONSOLIDATED FINANCIAL STATEMENTS
The Accounting Standards Board of Japan has issued AIBJ Practical Issues Task Force No. 18 “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (“PITF No. 18”). PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries’ financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the following four items are required in the consolidation process so that their impacts on net income are accounted for in accordance with Japanese GAAP unless the impact is not material.

1. Goodwill not subjected to amortization
2. Actuarial gains and losses of defined benefit plans recognized outside profit or loss
3. Capitalized expenditures for research and development activities
4. Fair value measurement of investment properties, and revaluation of property, plant and equipment, and intangible assets

(f) ALLOWANCE FOR DOUBTFUL ACCOUNTS
Notes and accounts receivables, including loans and other receivables, are valued by providing for individually estimated uncollectible amounts plus the amounts for probable losses calculated by applying a percentage based on collection experience to the remaining accounts. In Other Assets, the amount of Allowance for doubtful accounts is deducted from long-term loans receivable, investment securities and other.

(g) MARKETABLE SECURITIES, INVESTMENTS IN UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES, AND INVESTMENT SECURITIES
The Company and its consolidated subsidiaries are required to revalue the investment holding. The Company and its consolidated subsidiaries did not have the securities defined as (1) and (2) above for the years ended March 31, 2016 and 2015, respectively.

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.

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.

(h) ALLOWANCE FOR LOSSES ON INVESTMENT
(See Note 16)
To provide for losses on guarantees, the Company makes a provision for potential losses at the end of the fiscal year.

(i) RECOGNITION OF SALES, CONTRACT WORKS IN PROGRESS AND ADVANCES RECEIVED ON UNCOMPLETED CONTRACTS
Sales on 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.

(j) RECOGNITION OF INVENTORIES
Inventories of the Company and its consolidated subsidiaries 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.

(k) INVENTORIES
Inventories of the Company and its consolidated subsidiaries are stated at cost determined using the moving-average method (which writes off the book value of inventories based on decreases in profitability) except for contract works in progress as stated in Note 1(j).

(l) 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.
The Company and its consolidated subsidiaries provide two
(retirement and severance benefits
is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of an asset or asset group exceeds the sum of remaining service lives commencing in the following period.
However, certain consolidated subsidiaries have changed the attribution of expected benefit to periods from a straight-line attribution to a benefit formula basis. In addition, the Company and its consolidated domestic subsidiaries have changed the determination of discount rate from based on the average period expected to the approximated average remaining working lives of employees to the use of a single weighted average discount rates reflecting the estimated timing and amount of benefit payment.
In accordance with the article 37 of the Statement No. 26, the effect of the changing the determination of retirement benefit obligations and current service costs has been recognized in retained earnings as of April 1, 2014.
There were no significant effects of this change on liability for retirement benefits and retained earnings as of April 1, 2014 and net income and net income per share for the year ended March 31, 2015.
Officers’ severance and retirement benefits
Consolidated domestic 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.
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 income in the period incurred. The total amount of research and development expenses, included in Costs of Sales and Selling, General and Administrative expenses, was ¥4,483million (¥4,960 thousand) and ¥4,957 million, respectively, in 2016 and 2015.
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.
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.
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.
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.
Amortization of goodwill
Goodwill is amortized over five years on a straight-line basis. Negative goodwill is recognized in income statement immediately.
Derivative transactions and hedge accounting
The accounting standard for financial instruments requires companies to separate 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 and its consolidated domestic subsidiaries have recognized 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 foreign exchange forward contracts are used as hedges and meet certain hedging criteria, foreign exchange forward contracts on hedged items are accounted for in the following manner (Allocation Method).
If a foreign exchange forward 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.
If a foreign exchange forward 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 foreign exchange forward 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 liabilities for which the swap contract was executed (Special method for interest rate swaps).
Accrued bonuses to directors and corporate auditors
The Company and consolidated subsidiaries recognize directors’ and corporate auditors’ bonuses as expenses when incurred.
Changes in accounting policy
The Company and its domestic subsidiaries adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013 (hereinafter, “Statement No.21”)), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, September 13, 2013 (hereinafter, “Statement No.22”) and “Revised Accounting Standard for Foreign Currency Distortions” (ASBJ Statement No.7, September 13, 2013 (hereinafter, “Statement No.7”)) (together, the “Business Combination Accounting Standards”), from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the realization of acquisition costs due to the completion following provisional accounting to reflect such realization in the consolidated financial statements for the fiscal year in which the combination took place. The Company also changed the presentation of net income and the term “non-controlling interests” is used instead of “minority interests”. Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.
With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the current fiscal year prospectively.
Changes in presentation
(Consolidated statements of income)
“Provision of allowance for doubtful accounts”, which was stated as a separate account item in “Other Income (Expenses)” in the previous fiscal year, is incorporated in “Other, net” for the fiscal year ended March 31, 2016 due to its decreased materiality. As a result, ¥155
Note 2 — RECEIVABLES FROM AND PAYABLES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Significant receivables from and payables to unconsolidated subsidiaries and affiliates at March 31, 2016 and 2015, were as follows:

![Table]

Note 3 — BORROWINGS AND ASSETS PLEDGED AS COLLATERAL

Short-term loans consisted mainly of unsecured notes and bank overdrafts and bore interest at the average rates of 0.3% and 1.55% at March 31, 2016 and 2015, respectively. Such loans are generally renewable at maturity. Long-term debt consisted of the following:

![Table]

Note 4 — INVENTORIES

Inventories at March 31, 2016 and 2015 were summarized as follows:

![Table]

Note 5 — LEASE TRANSACTIONS

(a) FINANCE LEASE TRANSACTIONS WITHOUT OWNERSHIP

![Table]

(b) OPERATING LEASE TRANSACTIONS

Lease commitments under non-cancelable operating leases:

March 31, 2016 2015 2016
Due within one year ¥ 398 ¥ 392 ¥ 3,092
Due after one year 263 504 2,211
Total ¥ 661 ¥ 896 ¥ 5,303

No borrowing was outstanding for the following assets pledged as collateral as of March 31, 2016 and 2015.

Note 6 — RETIREMENT BENEFIT PLAN

(a) DEFINITION BENEFIT PLAN

(b) Movement in retirement benefit obligations

![Table]

Note 7 — SIGNIFICANT RECEIVABLES FROM AND PAYABLES TO UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

RECEIVABLES FROM AND PAYABLES TO

Note 8 — B. LESSOR LEASES

(1) Details of investment in leased assets

![Table]

(2) The investment in leased assets due in each of the next five years at March 31, 2016 was as follows:

An overview of the framework presented in Auditing Committee Report No. 66 “Guidance No.26)” “Revised Implementation Guidance on Recoverability of Deferred Accounting Standards Issued but Not Yet Adopted as “Gain on sales of investment securities”.

“Other, net” under “Other income (expenses)” on the consolidated statement of income for the previous fiscal year has been reclassified as “Other, net” under “Other income (expenses)” on the consolidated statement of income for the previous fiscal year.

The impact of adopting these accounting standards is currency at March 31, 2016 and 2015, were as follows:

![Table]

Effective date:

Effective from the beginning of the fiscal year ending March 31, 2017.

The impact of adopting these accounting standards is currency being evaluated.

Million presented as “Provision of allowance for doubtful accounts” under “Other income (expenses)” on the consolidated statement of income for the previous fiscal year has been reclassified as “Other, net.”

“Gain on sales of investment securities”, which was included in “Other, net” under “Other income (expenses)” in the previous fiscal year, is presented separately for the fiscal year ended March 31, 2016 due to its increased materiality. As a result, ¥ 6 million included in “Other, net” under “Other income (expenses)” on the consolidated statement of income for the previous fiscal year has been reclassified as “Gain on sales of investment securities”.

[1] Overview

Following the framework in Auditing Committee Report No. 66 “Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets”, which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

(i) Treatment for an entity that does not meet any of the criteria in types 1 to 5;

(ii) Criteria for types 2 and 3;

(iii) Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;

(iv) Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and

(v) Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

[2] Effective date

Effective from the beginning of the fiscal year ending March 31, 2017.


The impact of adopting these accounting standards is currency being evaluated.
Effective from September 30, 2015, the Company has amended its pension plans. As the result, the retirement benefit obligations decreased by ¥2,165 million ($22,320 thousand), which are included in other comprehensive income as past service costs. The past service costs would be recognized as expenses in the statement of income using the straight-line method over 12 years in accordance with the accounting policy.

(2) Movement in plan assets

(3) Reconciliation from retirement benefit obligations and plan assets to net defined benefit liability and asset.

(4) Retirement benefit expenses

(5) Remeasurements of defined benefit plans

Note 7 — 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 ¥13,854 million ($122,950 thousand) and ¥27,608 million at March 31, 2016 and 2015, respectively.

(2) The Company has guaranteed employers’ housing loans and others from banks in the amount of ¥12 million ($106 thousand) and ¥10 million at March 31, 2016 and 2015, respectively.

Note 8 — NET ASSETS

Under the Japanese Corporation Law (“the Law”) and regulations, the entire amount paid for new shares is required to be designated as common stock. However, companies 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, companies are required to set aside an amount equal to at least 10% of cash dividends and other cash appropriations in a legal earnings reserve until the total of the legal earnings reserve and additional paid-in capital equals 25% of common stock.

Under the Law, the legal earnings reserve and additional paid-in capital can be used to eliminate or reduce a deficit by a resolution of the shareholders’ meeting or can be capitalized by a resolution of the Board of Directors.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, however, additional paid-in capital and legal earnings reserve may be transferred to retained earnings by a resolution of the shareholders meeting as long as the total amount of the legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock.

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 the Law.

At the annual shareholders’ meeting of the Company held on June 29, 2016, the shareholders approved cash dividends amounting to ¥10,723 million ($95,163 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2016. Such appropriations are recognized in the period in which they are approved by the shareholders.

Note 9 — INFORMATION ON SECURITIES

A. The following tables summarize acquisition costs and book values stated at fair values of securities with available fair values as of March 31, 2016 and 2015.

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, 2016 and 2015.

(a) AVAILABLE-FOR-SALE SECURITIES WITH NO AVAILABLE FAIR VALUES:

(b) UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES:
(c) AVAILABLE-FOR-SALE SECURITIES WITH MATURITIES:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Aggregate loss</td>
<td>$ 8,000</td>
<td>$ 9,629</td>
</tr>
<tr>
<td>Aggregate gain</td>
<td>$ 9,629</td>
<td>$ 8,000</td>
</tr>
</tbody>
</table>

Note 10 — DERIVATIVE TRANSACTIONS AND HEDGING ACCOUNTING

As explained in Note 1 (k), 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 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 risks of fluctuation of foreign currency exchange rates with respect to foreign currency receivable and payable and 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 limit on the amounts 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 receivable, payable, and future transactions denominated in a foreign currency.
Foreign currency deposit: Foreign currency trade receivable, payable, 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 to 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 are all prime financial institutions.

(a) FAIR VALUE OF UNDESIGNATED DERIVATIVE FINANCIAL INSTRUMENTS

Fair value of undesignated derivative financial instruments as of March 31, 2016 and 2015, is summarized as follows:

<table>
<thead>
<tr>
<th>Hedging instruments</th>
<th>Hedged item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward exchange contracts</td>
<td>Foreign currency trade receivable, payable, and future transactions denominated in a foreign currency.</td>
</tr>
<tr>
<td>Interest rate swap contracts</td>
<td>Interest on loans payable.</td>
</tr>
</tbody>
</table>

(b) FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS DESIGNATED AS HEDGING INSTRUMENTS

Fair value of derivative financial instruments designated as hedging instruments as of March 31, 2016 and 2015 is summarized as follows:

<table>
<thead>
<tr>
<th>Hedging instruments</th>
<th>Hedged item</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forward exchange contracts</td>
<td>Foreign currency trade receivable, payable, and future transactions denominated in a foreign currency.</td>
</tr>
<tr>
<td>Interest rate swap contracts</td>
<td>Interest on loans payable.</td>
</tr>
</tbody>
</table>

Note 11 — SEGMENT INFORMATION

(a) OVERVIEW OF REPORTED SEGMENTS

The reported segments of the Company are those units for which separate financial statements can be obtained among the constituent units of the Company and regularly examined by Chief Executive Officer for decisions on the allocation of management resources and for assessing business performance. The operations of the Company and its consolidated subsidiaries are classified into two reportable segments: the total engineering business and the catalysts and fine chemicals 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, pharmaceutical,
The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 1.

The following is information about sales and profit or loss by reported segments for the years ended March 31, 2016 and 2015:

<table>
<thead>
<tr>
<th>Reported Segment</th>
<th>Year ended March 31, 2016</th>
<th>Million of yen</th>
<th>Year ended March 31, 2015</th>
<th>Million of yen</th>
<th>Total</th>
<th>Adjustment</th>
<th>Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Catalysts and fine products</td>
<td>828,414</td>
<td>37,629</td>
<td>866,043</td>
<td>13,912</td>
<td>879,955</td>
<td>—</td>
<td>879,955</td>
</tr>
<tr>
<td>Inter-segment</td>
<td>163</td>
<td>0</td>
<td>163</td>
<td>4,486</td>
<td>4,486</td>
<td>(4,486)</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>835,617</td>
<td>37,892</td>
<td>880,325</td>
<td>14,395</td>
<td>894,560</td>
<td>(4,486)</td>
<td>890,074</td>
</tr>
<tr>
<td>Segment profit</td>
<td>44,064</td>
<td>3,570</td>
<td>47,634</td>
<td>13,731</td>
<td>61,365</td>
<td>49,635</td>
<td></td>
</tr>
<tr>
<td>Segment assets</td>
<td>631,945</td>
<td>43,166</td>
<td>675,010</td>
<td>54,014</td>
<td>729,024</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,661</td>
<td>1,661</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4,492</td>
<td>2,082</td>
<td>6,584</td>
<td>3,024</td>
<td>9,608</td>
<td>(1,164)</td>
<td>8,442</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>2,873</td>
<td>4,196</td>
<td>7,069</td>
<td>2,196</td>
<td>9,265</td>
<td>19</td>
<td>9,284</td>
</tr>
<tr>
<td>Net sales</td>
<td>66,396,231</td>
<td>5,927.3</td>
<td>67,323,558</td>
<td>6,087,476</td>
<td>73,411,034</td>
<td>7,194,402</td>
<td>80,605,436</td>
</tr>
<tr>
<td>Net current deferred tax assets</td>
<td>106,319</td>
<td>19,364</td>
<td>125,683</td>
<td>23,997</td>
<td>149,680</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>835,617</td>
<td>37,892</td>
<td>880,325</td>
<td>14,395</td>
<td>894,560</td>
<td>(4,486)</td>
<td>890,074</td>
</tr>
<tr>
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<td>44,064</td>
<td>3,570</td>
<td>47,634</td>
<td>13,731</td>
<td>61,365</td>
<td>49,635</td>
<td></td>
</tr>
<tr>
<td>Segment assets</td>
<td>631,945</td>
<td>43,166</td>
<td>675,010</td>
<td>54,014</td>
<td>729,024</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Impairment</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>1,661</td>
<td>1,661</td>
<td>—</td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>4,492</td>
<td>2,082</td>
<td>6,584</td>
<td>3,024</td>
<td>9,608</td>
<td>(1,164)</td>
<td>8,442</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>2,873</td>
<td>4,196</td>
<td>7,069</td>
<td>2,196</td>
<td>9,265</td>
<td>19</td>
<td>9,284</td>
</tr>
<tr>
<td>Net sales</td>
<td>66,396,231</td>
<td>5,927.3</td>
<td>67,323,558</td>
<td>6,087,476</td>
<td>73,411,034</td>
<td>7,194,402</td>
<td>80,605,436</td>
</tr>
<tr>
<td>Net current deferred tax assets</td>
<td>106,319</td>
<td>19,364</td>
<td>125,683</td>
<td>23,997</td>
<td>149,680</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>835,617</td>
<td>37,892</td>
<td>880,325</td>
<td>14,395</td>
<td>894,560</td>
<td>(4,486)</td>
<td>890,074</td>
</tr>
</tbody>
</table>

(1) The "Other" category includes business activities of information processing, consulting, management of real estate, power and water supply, and oil and gas production.
(2) Adjustments for segment income, segment assets and other items represent the elimination of intersegment transactions.
(3) Segment income is reconciled to operating income of consolidated statements of income.

II. INFORMATION BY MAJOR CUSTOMERS

The following is information on major customers which account for 10% or more of the net sales on the consolidated statements of income for the years ended March 31, 2016 and 2015:

<table>
<thead>
<tr>
<th>Location</th>
<th>Net Sales (Millions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>$1,133,049</td>
</tr>
<tr>
<td>South East Asia</td>
<td>$1,088,871</td>
</tr>
<tr>
<td>North America</td>
<td>$1,306,505</td>
</tr>
<tr>
<td>Oceania</td>
<td>$271,842</td>
</tr>
<tr>
<td>Other</td>
<td>$1,794,830</td>
</tr>
<tr>
<td>Total</td>
<td>$7,809,327</td>
</tr>
</tbody>
</table>

(2) Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of March 31, 2016 and 2015, were as follows:

<table>
<thead>
<tr>
<th>Location</th>
<th>Deferred tax assets (Note 1)</th>
<th>Deferred tax liabilities (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>$127,672</td>
<td></td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>$202,175</td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td>$78,560</td>
<td></td>
</tr>
<tr>
<td>Americas Oceania</td>
<td>$76,255</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>$79,500</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$75,205</td>
<td></td>
</tr>
</tbody>
</table>

(3) V. INFORMATION ON IMPAIRMENT LOSS

This information is not disclosed, as this information is disclosed in Note 11 (a) for the years ended March 31, 2016 and 2015.

(4) IV. INFORMATION ON AMORTIZATION OF GOODWILL AND AMORTIZED BALANCE

This information is not disclosed, as this is immaterial for the years ended March 31, 2016 and 2015.

(5) V. INFORMATION ON GAIN ON NEGATIVE GOODWILL

This information is not disclosed, as this is immaterial for the years ended March 31, 2016 and 2015.

Note 12 — TAXES ON INCOME

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporate taxes, inhabitants’ taxes and enterprise taxes which, in the aggregate, resulted in statutory tax rates of 33.1% and 35.6% for the years ended March 31, 2016 and 2015, respectively.

(1) The following table summarizes the 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, 2016 and 2015:

<table>
<thead>
<tr>
<th>Location</th>
<th>Effective tax rate</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>32.3%</td>
<td>32.4%</td>
<td></td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>30.6%</td>
<td>30.6%</td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td>30.6%</td>
<td>30.6%</td>
<td></td>
</tr>
<tr>
<td>Americas Oceania</td>
<td>31.2%</td>
<td>31.2%</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>27.9%</td>
<td>27.9%</td>
<td></td>
</tr>
</tbody>
</table>

(2) Significant components of the Company’s and its consolidated subsidiaries’ deferred tax assets and liabilities as of March 31, 2016 and 2015, were as follows:

<table>
<thead>
<tr>
<th>Location</th>
<th>Deferred tax assets (Note 1)</th>
<th>Deferred tax liabilities (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>$127,672</td>
<td></td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>$202,175</td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td>$78,560</td>
<td></td>
</tr>
<tr>
<td>Americas Oceania</td>
<td>$76,255</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>$79,500</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$75,205</td>
<td></td>
</tr>
</tbody>
</table>

(1) The "Other" category includes business activities of information processing, consulting, management of real estate, power and water supply, and oil and gas production.
(2) Adjustments for segment income, segment assets and other items represent the elimination of intersegment transactions.
(3) Segment income is reconciled to operating income of consolidated statements of income.

(1) The following table summarizes the 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, 2016 and 2015:

<table>
<thead>
<tr>
<th>Location</th>
<th>Effective tax rate</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>32.3%</td>
<td>32.4%</td>
<td></td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>30.6%</td>
<td>30.6%</td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td>30.6%</td>
<td>30.6%</td>
<td></td>
</tr>
<tr>
<td>Americas Oceania</td>
<td>31.2%</td>
<td>31.2%</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>27.9%</td>
<td>27.9%</td>
<td></td>
</tr>
</tbody>
</table>

(2) Significant components of the Company’s and its consolidated subsidiaries’ deferred tax assets and liabilities as of March 31, 2016 and 2015, were as follows:

<table>
<thead>
<tr>
<th>Location</th>
<th>Deferred tax assets (Note 1)</th>
<th>Deferred tax liabilities (Note 1)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>$127,672</td>
<td></td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>$202,175</td>
<td></td>
</tr>
<tr>
<td>Middle East</td>
<td>$78,560</td>
<td></td>
</tr>
<tr>
<td>Americas Oceania</td>
<td>$76,255</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>$79,500</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>$75,205</td>
<td></td>
</tr>
</tbody>
</table>
For the years ended March 31, 2016 and 2015, the valuation allowances of ¥ 13,053 million ($ 115,839 thousand) and ¥ 10,918 million have been deducted from the gross amount of the non-current deferred tax assets, respectively.

Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates
On March 29, 2016, new tax reform laws were announced in Japan, which changed the normal statutory tax rate from approximately 32.3% to 30.9% for the years beginning on or after April 1, 2016, and to 30.6% for the years beginning on or after April 1, 2017. Due to this change in the statutory tax rate, net deferred tax assets, deferred income tax, and net unrealized holding gains on securities decreased by ¥ 778 million ($ 6,005 thousand), ¥ 679 million ($ 7,801 thousand), and ¥ 172 million ($ 1,528 thousand), respectively, and deferred losses on hedges and revaluations of defined benefit plans decreased by ¥ 7 million ($ 62 thousand) and ¥ 64 million ($ 568 thousand), respectively. Net deferred tax liabilities for land revaluation also decreased by ¥ 174 million ($ 1,544 thousand), and revaluation reserve for land increased by ¥ 174 million ($ 1,544 thousand).

Note 13 — NOTES TO THE CONSOLIDATED STATEMENTS OF CASH FLOWS
Reconciliation of cash in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows was as follows:

Note 14 — LAND REVALUATION
Pursuant to Article 2 of the Enforcement Ordinance for the Law Concerning Land Revaluation 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 sheets at March 31, 2016 and 2015. When such land is sold, land revaluation is reversed and debited to retained earnings. Fair value of the revalued land as of March 31, 2016 was ¥3,183 million ($28,248 thousand) less than the book value as of March 31, 2015, which amounts include ¥1,033 million ($8,917 thousand) relevant to rental property.

Note 15 — RELATED PARTY TRANSACTIONS
Significant transactions with related parties for the years ended March 31, 2016 and 2015 were as follows:

Note 16 — RENTAL PROPERTY
The fair value of investment and rental property on the consolidated financial statements at March 31, 2016 and 2015, were as follows:

(c) RISK MANAGEMENT SYSTEM FOR FINANCIAL INSTRUMENTS
(1) Credit risk management (counter-party risk)
The Company has established internal procedures for receivables under which the related divisions are primarily responsible for periodically monitoring counter-party status. The department manages amounts and settlement dates by counter-party and works to quickly identify and mitigate payment risk that may result from situations including deterioration of the financial condition of counter-parties. Consolidated subsidiaries are subject to the same risk management rules.

In using derivatives transactions, the Company mitigates counter-party risk by conducting transactions with highly creditworthy financial institutions.

(2) Market risk management (risk of exchange rate and interest rate fluctuations)
The Company monitors the balance of the foreign currency receivable and payable by each currency and every month and utilizes foreign currency forward contracts and foreign currency deposit to hedge the risk of fluctuations. The Company uses interest rate swaps to mitigate the risk of interest rate fluctuations associated with loans. Regarding marketable securities and investment securities, the Company periodically examines fair value and the financial condition of the issuing entities and revises its portfolio based on its relationships with issuing entities.

The derivative transactions are executed and managed by the Finance & Accounting Department in accordance with the established policies and within the specified limit on the amounts of derivative transactions allowed. The Department periodically provides administrative reports on the results to the financial director and treasurer.

(3) Management of liquidity risk associated with capital procurement (payment default risk)
The Company manages liquidity risk by creating and updating a capital deployment plan based on reports from each division.

(d) SUPPLEMENTAL INFORMATION ON THE FAIR VALUE OF FINANCIAL INSTRUMENTS
The fair value of financial instruments is based on market prices, or a reasonable estimate of fair value for instruments for which market prices are not available. Estimates of fair value are subject to fluctuation because they employ variable factors and assumptions.

In addition, the contractual amounts of the derivatives transactions discussed in B (a) below are not an indicator of the market risk associated with derivatives transactions.
The financial instruments, whose fair values were difficult to measure, were not included in the table below and were summarized in B (b).

Fair values of financial instruments as of March 31, 2016 and 2015, were summarized as follows:

### (a) Financial Instruments, Whose Fair Values Were Difficult to Measure

The following methods and assumptions were used to estimate the fair value of the financial instruments:

- **Cash and deposits**
  - Fair value of cash and deposits is calculated as the amounts available for use in current operations.

- **Marketable securities**
  - Fair value is determined using the market prices of equivalent securities.

- **Long-term loans receivable**
  - Fair value is estimated using discounting techniques with assumptions about future cash flows and interest rates.

- **Notes and accounts receivable**
  - Fair value is estimated using discounting techniques with assumptions about future cash flows and interest rates.

- **Other investable funds**
  - Fair value is determined using the market prices of equivalent securities.

- **Long-term investments**
  - Fair value is estimated using discounting techniques with assumptions about future cash flows and interest rates.

- **Other receivables**
  - Fair value is estimated using pricing models and inputs from market transactions.

The following table summarizes the fair value of financial instruments as of March 31, 2016 and 2015:

<table>
<thead>
<tr>
<th>(Thousands of U.S. dollars)</th>
<th>March 31, 2016</th>
<th>March 31, 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash and deposits</td>
<td>$2,129,464</td>
<td>$2,129,464</td>
</tr>
<tr>
<td>Marketable securities</td>
<td>$70,098</td>
<td>$70,098</td>
</tr>
<tr>
<td>Notes and accounts receivable</td>
<td>$1,560,845</td>
<td>$1,560,845</td>
</tr>
<tr>
<td>Other receivables</td>
<td>$221,423</td>
<td>$221,423</td>
</tr>
<tr>
<td>Investment securities</td>
<td>$187,788</td>
<td>$187,788</td>
</tr>
<tr>
<td>Long-term loans receivable</td>
<td>$3,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Other receivables, net</td>
<td>$3,000</td>
<td>$3,000</td>
</tr>
<tr>
<td>Total Liabilities</td>
<td>$1,148,217</td>
<td>$1,148,518</td>
</tr>
</tbody>
</table>

The maturities of the financial instruments at March 31, 2016 were as follows:

<table>
<thead>
<tr>
<th>(Millions of yen)</th>
<th>March 31, 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unconsolidated subsidiaries and affiliates</td>
<td>¥17,807</td>
</tr>
<tr>
<td>Non-listed equity securities</td>
<td>20,317</td>
</tr>
<tr>
<td>Subscription certificate</td>
<td>39</td>
</tr>
<tr>
<td>Other investment securities</td>
<td>—</td>
</tr>
<tr>
<td>Allowance for doubtful accounts</td>
<td>(22,715)</td>
</tr>
</tbody>
</table>

Please see Note 3 for the maturities of long term-debt.
Note 18 — IMPAIRMENT OF FIXED ASSETS
As discussed in Note 1 (b), the Company and its consolidated subsidiaries have applied the accounting standard for impairment of fixed assets.

The Company and its consolidated subsidiaries have grouped their fixed assets principally based on their business segment, while considering mutual supplementation of the cash flows.

The following is information on impairment loss for the year ended March 31, 2016.

<table>
<thead>
<tr>
<th>Location</th>
<th>Use</th>
<th>Type of assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A</td>
<td>Oil and gas production</td>
<td>Intangible and other assets</td>
</tr>
</tbody>
</table>

The Company grouped the assets for oil and gas production and sales business based on individual countries. Carrying amount of certain assets was devalued to their recoverable amounts, since oil and gas business environment had significantly adversely changed.

As a result, the Company recognized loss on impairment in the amount of ¥ 4,852 million. The Company used the value in use which was calculated by discounting future cash flows at the discount rates of 10%.

The following is information on impairment loss for the year ended March 31, 2015.

<table>
<thead>
<tr>
<th>Location</th>
<th>Use</th>
<th>Type of assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S.A</td>
<td>Oil and gas production</td>
<td>Intangible and other assets</td>
</tr>
</tbody>
</table>

The Company grouped the assets for oil and gas production and sales business based on individual countries. Carrying amount of certain assets was devalued to their recoverable amounts, since oil and gas business environment had significantly adversely changed. As a result, the Company recognized loss on impairment in the amount of ¥ 1,661 million. The Company used the value in use which was calculated by discounting future cash flows at the discount rates of 10%.

Note 19 — OTHER COMPREHENSIVE INCOME
Reclassification adjustments of the Company’s and consolidated subsidiaries’ other comprehensive income for the years ended March 31, 2016 and 2015, were as follows:

<table>
<thead>
<tr>
<th>Year ended March 31</th>
<th>$ (4,926)</th>
<th>¥ 2,594</th>
<th>¥ (7,029)</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 31, 2016</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net unrealized gains on securities</td>
<td>$ (3,870)</td>
<td>¥ 4,059</td>
<td>$ (4,428)</td>
</tr>
<tr>
<td>Reclassification adjustment for gains (losses) realized in net income</td>
<td>(1,115)</td>
<td>—</td>
<td>(3,892)</td>
</tr>
<tr>
<td>Sub-total</td>
<td>(4,994)</td>
<td>4,059</td>
<td>(44,320)</td>
</tr>
<tr>
<td>Deferred losses on hedges</td>
<td>(1,747)</td>
<td>(636)</td>
<td>(1,544)</td>
</tr>
<tr>
<td>Reclassification adjustment for deferred losses on hedges</td>
<td>37</td>
<td>127</td>
<td>328</td>
</tr>
<tr>
<td>Sub-total</td>
<td>(1,710)</td>
<td>(509)</td>
<td>(1,216)</td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>(2,612)</td>
<td>2,210</td>
<td>(23,181)</td>
</tr>
<tr>
<td>Sub-total</td>
<td>(2,612)</td>
<td>2,210</td>
<td>(23,181)</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>(2,647)</td>
<td>(1,361)</td>
<td>(21,716)</td>
</tr>
<tr>
<td>- Defined benefit plans during the year</td>
<td>(2,612)</td>
<td>2,210</td>
<td>(23,181)</td>
</tr>
<tr>
<td>- Reclassification adjustment for defined benefit plans</td>
<td>564</td>
<td>(30)</td>
<td>5,025</td>
</tr>
<tr>
<td>Sub-total</td>
<td>(1,883)</td>
<td>(1,391)</td>
<td>(16,711)</td>
</tr>
<tr>
<td>Equity for equity method affiliates</td>
<td>(1,883)</td>
<td>(1,391)</td>
<td>(16,711)</td>
</tr>
</tbody>
</table>

Note 20 — NET REALIZED GAINS (LOSSES) ON SECURITIES
The Company and its consolidated subsidiaries have grouped the securities held for trading principally based on their business segment, while considering mutual supplementation of the cash flows.

<table>
<thead>
<tr>
<th>Year ended March 31, 2016</th>
<th>$ (62,381)</th>
<th>¥ 23,021</th>
<th>$ (62,381)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before-tax amount</td>
<td>$ (55,402)</td>
<td>23,021</td>
<td>$ (55,402)</td>
</tr>
<tr>
<td>Tax benefit (expense)</td>
<td>2,894</td>
<td>(291)</td>
<td>1,224</td>
</tr>
<tr>
<td>Total other comprehensive income</td>
<td>$ (52,508)</td>
<td>¥ 23,021</td>
<td>$ (52,508)</td>
</tr>
</tbody>
</table>

Tax effects allocated to each component of other comprehensive income for the years ended March 31, 2016 and 2015, were as follows:

<table>
<thead>
<tr>
<th>Year ended March 31, 2016</th>
<th>Before-tax amount</th>
<th>Tax benefit (expense)</th>
<th>Net-of-tax amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net unrealized gains on securities</td>
<td>$ (4,926)</td>
<td>¥ 1,786</td>
<td>¥ (3,139)</td>
</tr>
<tr>
<td>Deferred gains (losses) on hedges</td>
<td>(137)</td>
<td>91</td>
<td>(46)</td>
</tr>
<tr>
<td>Land revaluation</td>
<td>—</td>
<td>174</td>
<td>174</td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>(2,612)</td>
<td>—</td>
<td>(2,612)</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>(1,883)</td>
<td>545</td>
<td>(1,338)</td>
</tr>
<tr>
<td>Equity for equity method affiliates</td>
<td>3</td>
<td>—</td>
<td>3</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>$ (4,926)</td>
<td>¥ 2,594</td>
<td>¥ (7,520)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year ended March 31, 2015</th>
<th>Before-tax amount</th>
<th>Tax benefit (expense)</th>
<th>Net-of-tax amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net unrealized gains on securities</td>
<td>$ 4,509</td>
<td>¥ 1,105</td>
<td>¥ 3,404</td>
</tr>
<tr>
<td>Deferred gains (losses) on hedges</td>
<td>(436)</td>
<td>73</td>
<td>(363)</td>
</tr>
<tr>
<td>Land revaluation</td>
<td>—</td>
<td>338</td>
<td>338</td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>2,210</td>
<td>—</td>
<td>2,210</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>(1,391)</td>
<td>432</td>
<td>(959)</td>
</tr>
<tr>
<td>Equity for equity method affiliates</td>
<td>(13)</td>
<td>—</td>
<td>(13)</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>$ 4,879</td>
<td>¥ 262</td>
<td>¥ 4,617</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year ended March 31, 2016</th>
<th>Before-tax amount</th>
<th>Tax benefit (expense)</th>
<th>Net-of-tax amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net unrealized gains on securities</td>
<td>$ 44,320</td>
<td>$ 15,850</td>
<td>$ 28,470</td>
</tr>
<tr>
<td>Deferred gains (losses) on hedges</td>
<td>(1,216)</td>
<td>808</td>
<td>(408)</td>
</tr>
<tr>
<td>Land revaluation</td>
<td>—</td>
<td>1,544</td>
<td>1,544</td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>(23,181)</td>
<td>—</td>
<td>(23,181)</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>(16,711)</td>
<td>4,819</td>
<td>(11,892)</td>
</tr>
<tr>
<td>Equity for equity method affiliates</td>
<td>26</td>
<td>—</td>
<td>26</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>$ 85,402</td>
<td>$ 23,021</td>
<td>$ 62,381</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year ended March 31, 2015</th>
<th>Before-tax amount</th>
<th>Tax benefit (expense)</th>
<th>Net-of-tax amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net unrealized gains on securities</td>
<td>$ 4,852</td>
<td>$ 1,661</td>
<td>$ 3,191</td>
</tr>
<tr>
<td>Deferred gains (losses) on hedges</td>
<td>(1,661)</td>
<td>543</td>
<td>(1,118)</td>
</tr>
<tr>
<td>Land revaluation</td>
<td>—</td>
<td>174</td>
<td>174</td>
</tr>
<tr>
<td>Translation adjustments</td>
<td>(2,612)</td>
<td>—</td>
<td>(2,612)</td>
</tr>
<tr>
<td>Remeasurements of defined benefit plans</td>
<td>(16,711)</td>
<td>4,819</td>
<td>(11,892)</td>
</tr>
<tr>
<td>Equity for equity method affiliates</td>
<td>26</td>
<td>—</td>
<td>26</td>
</tr>
<tr>
<td>Other comprehensive income</td>
<td>$ 44,320</td>
<td>$ 23,021</td>
<td>$ 21,299</td>
</tr>
</tbody>
</table>
Independent Auditor’s Report

To the Board of Directors of JGC Corporation:

We have audited the accompanying consolidated financial statements of JGC Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to 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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JGC Corporation and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 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 LLC

June 29, 2016
Tokyo, Japan

Supplemental Explanation

Internal Control over Financial Reporting in Japan

Under the Financial Instruments and Exchange Act in Japan (“the Act”), which was enacted in June 2006, the management of all listed companies in Japan are required to implement assessments of internal control over financial reporting (“ICOFR”) as of the end of the fiscal year and the management assessment shall be audited by independent auditors, effective from the fiscal year beginning on or after April 1, 2008.

We have evaluated our ICOFR as of March 31, 2016, in accordance with “On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting (Council Opinions)” published by the Business Accounting Council on March 30, 2011.

As a result of conducting the evaluation of ICOFR for the year ended March 31, 2016, we concluded that our internal control system over financial reporting as of March 31, 2016 was operating effectively and reported as such in the Internal Control Report.

Independent Auditor, KPMG AZSA LLC, performed an audit of our management assessment on the effectiveness of ICOFR under the Act.

An English translation of the Internal Control Report and the Independent Auditor’s Report filed under the Act is provided on the following pages.

JGC Corporation
Internal Control Report (Translation)

1 Framework of Internal Control Over Financial Reporting

Masayuki Sato, Chairman and Representative Director, and Koichi Kawana, President and Representative Director of JGC Corporation (the “Company”) are responsible for establishing and maintaining adequate internal control over financial reporting as defined in the rule “On the Revision of the Standards and Practice Standards for Management Assessment and Audit concerning Internal Control Over Financial Reporting Council Opinion”.

Because of its inherent limitations, internal control over financial reporting (“ICOFR”) may not completely prevent or detect misstatements.

2 Assessment Scope, Timing and Procedures

We have assessed our ICOFR as of March 31, 2016 in accordance with assessment standards for internal control over financial reporting generally accepted in Japan.

We assessed the design and operation of our company-level control and based on this assessment, we analyzed business processes within the scope of the internal control to be assessed, identified a key control that would have a material impact on the reliability of financial reporting and assessed whether the basic components of internal control are operating with regard to the key control.

We assessed the effectiveness of ICOFR of the Company, consolidated subsidiaries and equity-method affiliates to the extent necessary within the scope of the internal control to be assessed, identified a key control that would have a material impact on the reliability of financial reporting and assessed whether the basic components of internal control are operating with regard to the key control.

We assessed the significance of ICOFR of the Company, consolidated subsidiaries and equity-method affiliates to the extent necessary within the scope of the internal control to be assessed, identified a key control that would have a material impact on the reliability of financial reporting and assessed whether the basic components of internal control are operating with regard to the key control.

In assessing the period-end financial reporting process, we decided on reasonable scope of assessment in light of its degree of quantitative and qualitative impact on financial reporting based on the assessment of the company-level control.

Audit of Consolidated Financial Statements

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act in Japan (“the Act”), we have audited the consolidated financial statements of JGC Corporation (the “Company”) and its consolidated subsidiaries included in the Financial Section, namely, the consolidated balance sheet as of March 31, 2016, the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in net assets and consolidated statement of cash flows for the fiscal year from April 1, 2015 to March 31, 2016, and a summary of significant accounting policies, other explanatory information and consolidated supplementary schedules.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to independently express an opinion on those consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.
The firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Interest standards for internal control over financial reporting generally accepted in Japan.

March 31, 2016, presents fairly, in all material respects, the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan. Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of JGC Corporation and its consolidated subsidiaries as of March 31, 2016, and their financial performance and cash flows for the year ended March 31, 2016, in accordance with accounting principles generally accepted in Japan.

Audit of Internal Control

Pursuant to the second paragraph of Article 193-2 of the Financial Instruments and Exchange Act in Japan, we also have audited the Company’s report on internal control over financial reporting of the consolidated financial statements of JGC Corporation as of March 31, 2016 (Internal Control Report).

Management’s Responsibility for the Internal Control Report

Management is responsible for the design and operation of internal control over financial reporting and the preparation and fair presentation of the Internal Control Report in conformity with assessment standards for internal control over financial reporting generally accepted in Japan. Internal control over financial reporting may not completely prevent or detect financial statement misstatements.

Auditor’s Responsibility

Our responsibility is to express an opinion on the Internal Control Report based on our internal control audit. We conducted our internal control audit in accordance with auditing standards for internal control over financial reporting generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Internal Control Report is free from material misstatement.

An internal control audit involves performing procedures to obtain audit evidence about the assessment of internal control over financial reporting in the Internal Control Report. The procedures selected depend on the auditor’s judgment, including significance of effect on the reliability of financial reporting. Also, an internal control audit includes evaluating the appropriateness of the scope, procedures and result of the assessment determined and presented by management as well as evaluating the overall internal control report presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Internal Control Report, in which JGC Corporation states that internal control over financial reporting was effective as of March 31, 2016, presents fairly, in all material respects, the assessment of internal control over financial reporting in conformity with assessment standards for internal control over financial reporting generally accepted in Japan.

Interest

The firm and the engagement partners do not have any interest in the Company for which disclosure is required under the provisions of the Certified Public Accountants Act of Japan.

JGC Group
As of March 31, 2016

<table>
<thead>
<tr>
<th>Total Engineering</th>
<th>Engineering &amp; Construction Services</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>JGC PLANT INNOVATION CO., LTD.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>¥830,000,000</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>JGC CORPORATION</td>
<td></td>
</tr>
<tr>
<td></td>
<td>JGC PLANT INNOVATION CO., LTD.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Japan</td>
<td></td>
</tr>
<tr>
<td></td>
<td>¥830,000,000</td>
<td>100%</td>
</tr>
</tbody>
</table>

Catalysts and Fine Products

<table>
<thead>
<tr>
<th>Others</th>
<th>Total Engineering</th>
<th>Catalysts and Fine Products</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>JGC CORPORATION</td>
<td>JGC Catalysts and Chemicals Ltd.</td>
</tr>
<tr>
<td></td>
<td>JAPAN FINE CERMICS CO., LTD.</td>
<td>JAPAN FINE CERMICS CO., LTD.</td>
</tr>
<tr>
<td></td>
<td>Nikki-Universal Co., Ltd.</td>
<td>Nikki-Universal Co., Ltd.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Others</th>
<th>Business</th>
<th>Company</th>
<th>Country</th>
<th>Capital</th>
<th>Capital Share</th>
<th>Other</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equipment Procurement</td>
<td>JGC Trading &amp; Services Co., Ltd.</td>
<td>Japan</td>
<td>¥40,000,000</td>
<td>24.5%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Specialized Consulting Services</td>
<td>JAPAN HUS CO., LTD.</td>
<td>Japan</td>
<td>¥50,000,000</td>
<td>88%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Office Support Services</td>
<td>NHK BUSINESS SERVICES CO., LTD.</td>
<td>Japan</td>
<td>¥1,455,000</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Water &amp; Power Generation Business</td>
<td>JGC-ITC Ralph Utility Co., Ltd.</td>
<td>Japan</td>
<td>¥39,000,000</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>JGC Mira Solar Co., Ltd.</td>
<td>Japan</td>
<td>¥445,000,000</td>
<td>51%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Kaminoya Mira Solar Co., Ltd.</td>
<td>Japan</td>
<td>¥231,000,000</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Oil &amp; Gas Production and Sales Business</td>
<td>JGC Energy Development (USA) Inc.</td>
<td>U.S.A</td>
<td>US$85,000,000</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>JGC Exploration Eagle Ford LLC</td>
<td>U.S.A</td>
<td>US$130,447,000</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>JGC EXPLORATION CANADA LTD.</td>
<td>Canada</td>
<td>C$105,885,000</td>
<td>100%</td>
<td></td>
</tr>
</tbody>
</table>
Outline of JGC
As of March 31, 2016

Established: October 25, 1928
Capital: ¥23,511,189,612
Number of Employees: 2,336 (Consolidated: 7,489)

<table>
<thead>
<tr>
<th>Major Shareholders</th>
<th>Number of shares (Thousands)</th>
<th>Percentage of total (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Master Trust Bank of Japan, Ltd. (Trust Account)</td>
<td>23,225</td>
<td>8.96</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account)</td>
<td>20,438</td>
<td>7.88</td>
</tr>
<tr>
<td>JGC Trading and Services Co., Ltd.</td>
<td>12,112</td>
<td>4.67</td>
</tr>
<tr>
<td>Sumitomo Mitsui Banking Corporation</td>
<td>11,030</td>
<td>4.24</td>
</tr>
<tr>
<td>JGC-S SCHOLARSHIP FOUNDATION</td>
<td>9,430</td>
<td>3.50</td>
</tr>
<tr>
<td>Mizuho Bank, Ltd.</td>
<td>5,700</td>
<td>2.2</td>
</tr>
<tr>
<td>Japan Trustee Services Bank, Ltd. (Trust Account 9)</td>
<td>4,816</td>
<td>1.85</td>
</tr>
<tr>
<td>NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS</td>
<td>3,918</td>
<td>1.51</td>
</tr>
<tr>
<td>BNP Paribas Securities Limited</td>
<td>3,717</td>
<td>1.43</td>
</tr>
<tr>
<td>THE BANK OF NEW YORK MELLON SA/NV</td>
<td>3,339</td>
<td>1.28</td>
</tr>
</tbody>
</table>

JGC’s treasury stock holdings total 6,744 thousand shares, approximately 2.60% of total shares issued.

Authorized Shares: 600,000,000
Issued and Outstanding Shares: 259,052,929
Number of Shareholders: 14,383

Administrator of the Shareholders’ Register:
Mitsubishi UFJ Trust and Banking Corp.
1-4-5, Marunouchi, Chiyoda-ku, Tokyo 100-8212, Japan

Stock Price
JGC Stock Price (Yen)
Nikkei Stock Average (Yen)

Volume (Thousands of shares)

Figures have been rounded to two decimal places.