

# **CHIYODA CORPORATION**

## **Consolidated Financial Results**

for the Year Ended March 31, 2007



This document has been prepared as a guide to non-Japanese investors and contains forward-looking statements that are based on managements' estimates, assumptions and projections at the time of publication. A number of factors could cause actual results to differ materially from expectations. This document is a translation of excerpts taken from the Japanese language original. All numbers are rounded down to the nearest unit in accordance with standard Japanese practice. Please be advised that the Company cannot accept responsibility for investment decisions made based on the information contained in this report.

## Summary of Financial Statements (Consolidated) for the Year Ended March 31, 2006

Listed Exchanges	Tokyo
Head Office	Kanagawa, Japan
Stock Code	6366
President & CEO	Takashi Kubota
Inquiries	Shinji Kusunoki, General Manager, Accounting Department
Telephone	+81-45-506-9410
U.S. GAAP Accounting Principles	Not adopted

### Consolidated Business Results for the Year Ended March 31, 2007

#### 1) Consolidated Business Results

(Percentages represent change compared with the previous fiscal year.)

	Millions of Yen			
	Apr. 1, 2006– Mar. 31, 2007		Apr. 1, 2005 – Mar. 31, 2006	
		Change(%)		Change(%)
Revenue .....	484,895	24.1	390,875	46.0
Operating Income .....	28,700	38.5	20,729	87.1
Ordinary Income .....	36,797	58.9	23,161	99.9
Net Income .....	23,531	21.3	19,400	50.8
Net Income per Share (¥) .....	122.41		101.27	
Fully Diluted Net Income per Share (¥) .....	122.28		100.80	
Return on Equity (ROE) .....	35.5%		42.0%	
Ratio of Ordinary Income to Total Assets .....	10.2%		10.0%	
Ratio of Ordinary Income to Revenue .....	5.9%		5.3%	

(Note) Gain from investments in subsidiaries and affiliates accounted for by the equity method:

Year ended March 31, 2007:	375 million yen
Year ended March 31, 2006:	193 million yen

#### 2) Changes in Consolidated Financial Position

	Millions of Yen	
	Apr. 1, 2006– Mar. 31, 2007	Apr. 1, 2005– Mar. 31, 2006
Total Assets .....	442,952	279,721
Shareholders' Equity .....	77,414	55,508
Equity Ratio .....	17.4%	19.8%
Shareholders' Equity per Share (¥) .....	400.56	288.88

(Note) Net Worth (Total Net Assets excluding Minority Interests):

Year ended March 31, 2007:	77,022 million yen
Year ended March 31, 2006:	- million yen

### 3) Consolidated Cash Flows

	<i>Millions of Yen</i>	
	Apr. 1, 2006– Mar. 31, 2007	Apr. 1, 2005 – Mar. 31, 2006
Net Cash Provided by Operating Activities .....	35,531	5,237
Net Cash (Used in) Provided by Investing Activities .....	(3,458)	1,051
Net Cash Used in Financing Activities .....	(2,191)	(1,338)
Cash and Cash Equivalents at End of Period .....	77,051	46,878

### 4) Dividends

	<i>Millions of Yen</i>	
	Apr. 1, 2006– Mar. 31, 2007	Apr. 1, 2005 – Mar. 31, 2006
Dividends per Share .....	15.00 yen	10.00 yen
Payment of Cash Dividends .....	2,884	1,921
Payout Ratio (Consolidated) .....	12.3%	9.9%
Dividend on Equity Ratio (Consolidated) .....	4.4%	4.1%

(Note) Forecast dividends per share for the year ending March 31, 2008: 18.00 yen  
Payout ratio (consolidated) for the year ending March 31, 2008: 14.7%

### 5) Consolidated Forecast of Results for the Year Ending March 31, 2008

(Percentages represent change compared with the previous interim period or full term, respectively)

	<i>Millions of Yen</i>			
	Apr. 1, 2007 – Mar. 31, 2008			
	<i>Interim period</i>		<i>Full term</i>	
		%		%
Revenue .....	275,000	30.3	550,000	13.4
Operating Income .....	15,000	11.2	30,000	4.5
Ordinary Income .....	19,500	16.8	38,500	4.6
Net Income .....	12,000	7.4	23,500	(0.1)
Net Income per Share .....	62.41 yen		122.21 yen	

## 1. Results of Operations

### (1) Analysis of Operating Results

Regarding the market environment for Chiyoda during the year ended March 31, 2007, in the overseas market for plants, investment by natural gas producing nations and Energy Majors in the gas value chain was robust, reflecting worldwide growth in energy demand. In these conditions, Chiyoda successfully received two contracts for gas processing plant projects in Qatar. As for ongoing projects, Chiyoda completed a large-scale, 4.7million-ton LNG plant in the same country.

In the domestic market, with lively capital investment by oil and petrochemical companies, Chiyoda achieved higher-than-forecast results for both new contracts and revenues, primarily in the fields of oil and petrochemicals.

New contracts for the fiscal year were 557,707 million yen on a consolidated basis, a 30.7% decrease compared with the previous fiscal year. New contracts decreased 41.8% to 402,409 million yen overseas and increased 37.8% to 155,297 million yen in Japan. The backlog of contracts as of March 31, 2007 was 1,048,679 million yen.

### New Contracts (Consolidated)

(Billions of yen)

Fiscal years ended March 31				Backlog of contracts
	Overseas	Domestic	Total	
2003	180.4	68.6	249.0	316.1
2004	218.6	71.9	290.6	375.8
2005	321.7	89.4	411.2	522.4
2006	691.5	112.7	804.2	960.5
<b>2007</b>	<b>402.4</b>	<b>155.2</b>	<b>557.7</b>	<b>1,048.6</b>

### Major New Contracts

Overseas	<ul style="list-style-type: none"> <li>• Al Khaleej Gas Phase 2 project for ExxonMobil in Qatar</li> <li>• Feed gas preparation works of Pearl GTL project for Royal Dutch Shell in Qatar</li> <li>• Integrated tank terminal (Phase 2) in Singapore (Chiyoda Singapore (Pte) Limited)</li> </ul>
Domestic	<ul style="list-style-type: none"> <li>• CCR unit for Seibu Oil Co., Ltd.</li> <li>• Expansion of No. 7 naphtha hydrodesulfurization plant for Fuji Oil Co., Ltd.</li> <li>• Expansion of L-2 unit for Eisai Co., Ltd.</li> <li>• Utsunomiya No. 2 Plant for Hisamitsu Pharmaceutical Co., Inc.</li> <li>• Hikone Plant, No. 4 unit (Chiyoda TechnoAce Co., Ltd.) for Maruho Co., Ltd.</li> </ul>

Consolidated revenues increased 24.1% compared with the previous fiscal year to 484,895 million yen, exceeding forecasts. Factors behind the increase included full-scale work on ongoing projects. Overseas, revenues increased 32.5% to 378,345 million yen, and domestic revenues rose 1.2% to 106,550 million yen.

#### Major Completed Construction (\*) Completed portion

Overseas	<ul style="list-style-type: none"> <li>• LNG plant Train 5 for Ras Laffan Liquefied Natural Gas Co., Ltd. (2) in Qatar</li> <li>• Al Khaleej Gas Phase 1 project for ExxonMobil in Qatar</li> <li>• LNG plant Trains 4 &amp; 5 for Qatar Liquefied Gas Company Limited (II) in Qatar (*)</li> <li>• LNG plant Trains 6 &amp; 7 for Ras Laffan Liquefied Natural Gas Co., Ltd. (3) in Qatar (*)</li> <li>• LNG plant Trains 6 &amp; 7 for Qatar Liquefied Gas Company Limited (3) &amp; (4) in Qatar (*)</li> <li>• Sakhalin II LNG project in Russia (*)</li> </ul>
Domestic	<ul style="list-style-type: none"> <li>• BTX plant for Taiyo Oil Co., Ltd.</li> <li>• Lube oil/grease mixing and filling plant for Nippon Petroleum Refining Co., Ltd.</li> <li>• Aromatics complex for Kashima Aromatics Co., Ltd. (*)</li> <li>• MXDA facility for Mitsubishi Gas Chemical Company, Inc. (*)</li> <li>• LPG underground storage terminal in Namikata for Japan Oil, Gas and Metals National Corporation (*)</li> <li>• Fiscal 2006 regular maintenance of Mizue Plant for Toa Oil Co., Ltd. (Chiyoda Kosho Co., Ltd.)</li> </ul>

Gross profit was 39,736 million yen, an increase of 30.1% compared with the previous fiscal year due to the growth in revenues and a 0.4 point improvement in the gross margin. As a result of this increase and a 0.2 point decrease in the ratio of selling, general and administrative expenses to revenues, operating income rose 38.5% to 28,700 million yen. Both ordinary income and net income were higher than forecast. Ordinary income rose 58.9% to 36,797 million yen due in part to growth in interest income from an increase in jointly controlled assets of joint venture. Net income increased 21.3% to 23,531 million yen.

(Billions of yen)

Fiscal years ended March 31	Revenues	Gross profit	Operating income	Ordinary income	Net income
2003	166.3	10.4	1.5	2.3	1.9
2004	206.8	14.1	5.8	6.3	6.6
2005	267.6	19.7	11.0	11.5	12.8
2006	390.8	30.5	20.7	23.1	19.4
<b>2007</b>	<b>484.8</b>	<b>39.7</b>	<b>28.7</b>	<b>36.7</b>	<b>23.5</b>

## **Results by Business Segment**

The following is a summary of consolidated operating results by business segment.

### **Natural Gas and Electric Power**

Overseas, natural gas producing nations and Energy Majors invested strongly in the gas value chain – development of gas fields, construction of LNG plants, arrangements for LNG carriers and construction of LNG receiving terminals – against a backdrop of continuing growth in global demand for natural gas. Amid these conditions, Chiyoda successfully received two contracts for gas processing plant projects in Qatar. As for ongoing projects, in November 2006 Chiyoda completed the 4.7 million ton LNG plant Train 5 of Ras Laffan Liquefied Natural Gas Co., Ltd. (2), also in Qatar. Construction was completed in a very short time span of 28 months from receipt of contract. Full-scale construction also began for three other large-scale LNG plants in Qatar (with an annual capacity at the 7.8 million ton level), and another in Sakhalin.

In Japan's electric and gas industry, there is rising inclination to invest in new projects to deal with the environment and energy security, including new expansion plans for large-scale LNG receiving terminals in response to the removal of boundaries in the energy industry and the shift to LNG and coal as fuels because of persistently high prices for crude oil.

In the fiscal year ended March 31, 2007, new contracts were 420,797 million yen, a decrease of 39.2% compared with the previous fiscal year. Revenues were 371,574 million yen, an increase of 30.6%.

### **Petroleum, Petrochemicals and Gas Chemicals**

In the petroleum sector, ongoing projects and construction completions progressed smoothly. New contracts also exceeded forecasts, including contracts for new large-scale projects in Japan, due to a strong drive to invest in facilities for processing heavy grades of oil and producing petrochemicals. In the petrochemical sector, the drive to invest was also high as companies were able to reflect high crude oil prices in product prices. In addition to expansion into Asian markets, a move toward investment in CRI businesses (business that combine petroleum refining and petrochemicals) was evident.

In the fiscal year ended March 31, 2007, new contracts were 85,773 million yen, an increase of 16.2% compared with the previous fiscal year. Revenues were 69,629 million yen, an increase of 12.9%.

### **General Chemicals and Industrial Machinery**

In the general chemicals sector, the drive to invest in capacity strengthened industrywide in response to significant changes, including industry realignment due to mergers, an increase in integration and efficiency of R&D facilities and plants at all companies, and enhancements in new product development capability and speed. In the industrial machinery sector, firm capital investment continued. Chiyoda steadily received orders for new investment projects in both sectors.

In the fiscal year ended March 31, 2007, new contracts were 33,258 million yen, an increase of 25.6% compared with the previous fiscal year. Revenues were 31,090 million yen, a decrease of 2.5%.

### **Environment and Others**

In the environment sector, Chiyoda continued to conduct sales activities both in Japan and overseas for CT-121 flue gas desulfurization technology, which it developed to meet increasingly strict environmental regulations, and secured new projects in other sectors as well.

In the fiscal year ended March 31, 2007, new contracts were 11,091 million yen, an increase of 55.5% compared with the previous fiscal year. Revenues were 5,815 million yen, a decrease of 27.9%.

### Outlook for the Year Ending March 31, 2008

While maintaining a balance with ongoing project execution, Chiyoda will work to acquire new contracts with an eye on profitability and projects that capitalize on the Company's technological advantages.

In ongoing projects, Chiyoda will deal with the high cost of materials and the tight supply of labor in order to proceed as scheduled on the three large-scale LNG projects in Qatar, and will work to achieve steady progress on other ongoing projects in Japan and overseas.

Under these conditions, and assuming an exchange rate of 115 yen to the U.S. dollar, for the year ending March 31, 2008, Chiyoda forecasts consolidated new contracts of 250.0 billion yen, revenues of 550.0 billion yen, operating income of 30.0 billion yen, ordinary income of 38.5 billion yen and net income of 23.5 billion yen.

### Outlook for the Year Ending March 31, 2008 (Consolidated)

Fiscal years ended/ending March 31	(Billions of yen)		
	2008	2007	Change (%)
New contracts	<b>250.0</b>	557.7	(55 %)
Revenues	<b>550.0</b>	484.8	13%
Operating income	<b>30.0</b>	28.7	5%
Ordinary income	<b>38.5</b>	36.7	5%
Net income	<b>23.5</b>	23.5	0%

## (2) Analysis of Financial Condition

### 1) Assets, Liabilities and Net Assets

#### Assets

Current assets increased 161,413 million yen due to factors including growth in jointly controlled assets of joint venture resulting from an increase in large-scale joint venture projects and an improvement in cash provided by operating activities that included increases in cash and cash equivalents and time deposits. Fixed assets increased 1,817 million yen due to factors including IT-related capital investments and purchase of investment securities. As a result, total assets increased 163,231 million yen compared with the end of the previous fiscal year.

#### Liabilities

Total liabilities increased 141,647 million yen. This included a 129,839 million yen increase in advance receipts on construction contracts, a 911 million yen increase in notes and accounts payable – trade and a 9,080 million yen increase in income taxes payable.

#### Net Assets

Total net assets were 77,414 million yen due to a 21,521 million yen increase in retained earnings compared with the end of the previous fiscal year resulting from the increase in net income and other factors. The shareholders' equity ratio decreased 2.4 points to 17.4% due to the 163,231 million yen increase in total assets resulting from significant growth in jointly controlled assets of joint venture.

(Billions of yen)

Fiscal years ended March 31	2006	2007	Change		2006	2007	Change
<b>Current assets</b>	256.6	<b>418.0</b>	161.4	<b>Current liabilities</b>	205.1	<b>351.4</b>	146.2
Cash and cash equivalents and time deposits	47.0	<b>77.1</b>	30.1	Short-term loans	0.0	<b>0.0</b>	0.0
Operating assets (Notes and accounts receivable – trade, costs and estimated earnings on long-term construction contracts and costs of construction contracts in process)	64.8	<b>66.3</b>	1.4	Operating liabilities (Notes and accounts payable – trade and advance receipts on construction contracts)	187.8	<b>318.6</b>	130.7
Jointly controlled assets of joint venture	131.3	<b>256.0</b>	124.7	Other current liabilities	17.2	32.7	15.4
Other current assets	13.3	<b>18.4</b>	5.1	<b>Non-current liabilities</b>	18.6	<b>14.0</b>	(4.6)
<b>Fixed assets</b>	23.0	<b>24.9</b>	1.8	Long-term debt	10.1	<b>10.0</b>	(0.1)
Property, plant and equipment	7.0	<b>7.4</b>	0.3	Other long-term liabilities	8.5	<b>4.0</b>	(4.5)
Intangible fixed assets	3.1	<b>3.3</b>	0.1	<b>Total net assets (*)</b>	55.8	<b>77.4</b>	21.5
Investments and other assets	12.8	<b>14.0</b>	1.2	Shareholders' equity	55.7	<b>77.1</b>	21.3
				Valuation and exchange rate adjustments	(0.2)	<b>(0.1)</b>	0.1
				Minority interests	0.3	<b>0.3</b>	0.0
<b>Total assets</b>	279.7	<b>442.9</b>	163.2	<b>Total liabilities and net assets</b>	279.7	<b>442.9</b>	163.2

(\*) Total net assets shown for the year ended March 31, 2006 are the sum of shareholders' equity as formerly calculated and minority interests.



## 2) Cash Flow

### Cash flow from operating activities

Net cash provided by operating activities was 35,531 million yen. Income before income taxes of 37,935 million yen and changes in working capital resulting in a surplus of 129,445 million yen (consisting of net changes in trade notes and accounts receivable, costs and estimated earnings on long-term construction projects, trade notes and accounts payable and advance receipts on construction projects) offset an increase in jointly controlled assets of joint venture that resulted from an increase in large-scale joint venture projects.

Jointly controlled assets of joint venture, a line item on the balance sheet of the statement of accounts, represents the equivalent of Chiyoda's equity share in construction contracts at joint ventures. As such, it indicates Chiyoda's actual share of the balance of cash and cash equivalents and time deposits under the name of the joint venture. When this is taken into consideration, actual net cash provided by operating activities was 160,256 million yen.

### Cash flow from investing activities

Net cash used in investing activities was 3,458 million yen. Proceeds from collections of long-term loans totaled 609 million yen, but this was offset by payments for purchases of investment securities totaling 2,419 million yen and capital investments including purchases of IT-related software totaling 1,779 million yen.

### Cash flow from financing activities

Net cash used in financing activities was 2,191 million yen due to payment of cash dividends and other factors.

As a result of the above, net cash and cash equivalents as of March 31, 2007 were 77,051 million yen, an increase of 30,173 million yen from the end of the previous fiscal year.

### Change in Financial Condition (Consolidated)

(Billions of yen)

Fiscal years ended March 31	Total assets	Total liabilities	Net assets (*)	Net cash provided by (used in)			Cash and cash equivalents at year-end
				Operating activities	Investing activities	Financing activities	
2003	120.2	103.1	17.1	6.9	(0.8)	(9.5)	34.9
2004	142.8	119.7	23.1	15.5	(1.2)	(8.2)	40.9
2005	182.8	145.6	37.2	0.4	(1.0)	1.1	41.5
2006	279.7	223.8	55.8	5.2	1.0	(1.3)	46.8
<b>2007</b>	<b>442.9</b>	<b>365.5</b>	<b>77.4</b>	<b>35.5</b>	<b>(3.4)</b>	<b>(2.1)</b>	<b>77.0</b>

(\*) Total net assets shown for the years ended March 31, 2003, 2004, 2005 and 2006 are the sum of shareholders' equity as formerly calculated and minority interests.

### Cash Flow Indices

Fiscal years ended March 31	Shareholders' equity ratio (%)	Debt repayment period (Years)	Interest coverage ratio (Times)
2003	13.9	2.7	11.7
2004	15.9	0.7	42.4
2005	20.2	21.3	1.6
2006	19.8	2.0	17.3
<b>2007</b>	<b>17.4</b>	<b>0.3</b>	<b>114.4</b>
Notes	Shareholders' equity/Total assets	Interest-bearing debt/Net cash provided by operating activities	Net cash provided by operating activities/Interest expense

(3) Fundamental Policy for Earnings Distributions and Dividends for the Years Ended March 31, 2007 and Ending March 31, 2008

Chiyoda is committed to perpetual growth and development. Accordingly, while further increasing internal reserves to maintain the consistently sound financial structure needed to create next-generation businesses as a company able to sustain earnings growth, Chiyoda pays dividends to shareholders as a means of distributing earnings.

Chiyoda plans to pay a year-end dividend of 15 yen per share for the year ended March 31, 2007, and a year-end dividend of 18 yen per share for the year ending March 31, 2008.

#### (4) Business and Other Risks

Presented below is a list of major items that may have a material effect on investment decisions, including significant items concerning Chiyoda's financial condition, operating results and cash flows, and the Group's responses to each. Based on an awareness of these risks, the Group takes the greatest possible precautions to avoid them. In the event that a risk materializes, Chiyoda works to respond as quickly as possible to minimize its impact.

Risks listed below that involve future events are those which Chiyoda regards as important with respect to risk management as of today.

##### 1) Exchange rate volatility

For overseas projects, payments for equipment, materials and subcontracting work are sometimes in currencies other than Japanese yen. Consequently, changes in exchange rates can have an effect on earnings. Chiyoda works to minimize the risk of exchange rate volatility by receiving payments in multiple currencies to match projected expenses and using forward foreign exchange contracts.

##### 2) Higher cost of equipment and materials and limited supplies of basic materials

For plant construction projects, there is a gap between the time estimates are prepared and the time materials, equipment and subcontracting work are ordered. As a result, there are cases when, following the submission of a bid for a project, an increase in the cost of equipment or materials exceeds the outlook at the time the estimates were prepared. Moreover, limited supplies of metals such as copper, nickel, aluminum and zinc may cause delays in the delivery of equipment and materials and in the installation of equipment. Any of these events may have an impact on earnings.

Chiyoda is doing everything possible to avoid and minimize these risks, including studying the diversification of suppliers in ways such as making purchase in all areas of the world, and the placement of bulk orders. Other measures include ordering equipment and materials as early as possible and establishing cooperative relationships with major vendors.

##### 3) Limited supplies of construction workers and increase in subcontracting costs

For plant construction projects, there is a gap between the time estimates are prepared and the time subcontracting work is ordered. As a result, in the event that large-scale construction work expands, the increase in labor costs may exceed the outlook at the time the estimates were prepared. In particular, an increase in costs may occur when there is a shortage of good-quality labor in specific fields requiring case-by-case response.

Chiyoda searches around the world for workers in every field based on cooperative relationships with major construction companies, and minimizes the impact of risks through measures including job skill training for workers at each construction site.

##### 4) Terrorism, hostilities in neighboring countries, strikes, anarchism and natural disasters

There may be an impact on earnings in the event that global terrorism or similar events directly damage construction sites or Chiyoda offices in Japan or overseas, delay the delivery of equipment or materials, endanger construction site workers, force the suspension of construction work or cause other problems resulting in losses and expenses that cannot be passed on to customers.

Chiyoda has a crisis management system that permits a quick initial response, including collaboration with customers and other external parties, should a crisis occur.

##### 5) Accidents at plants

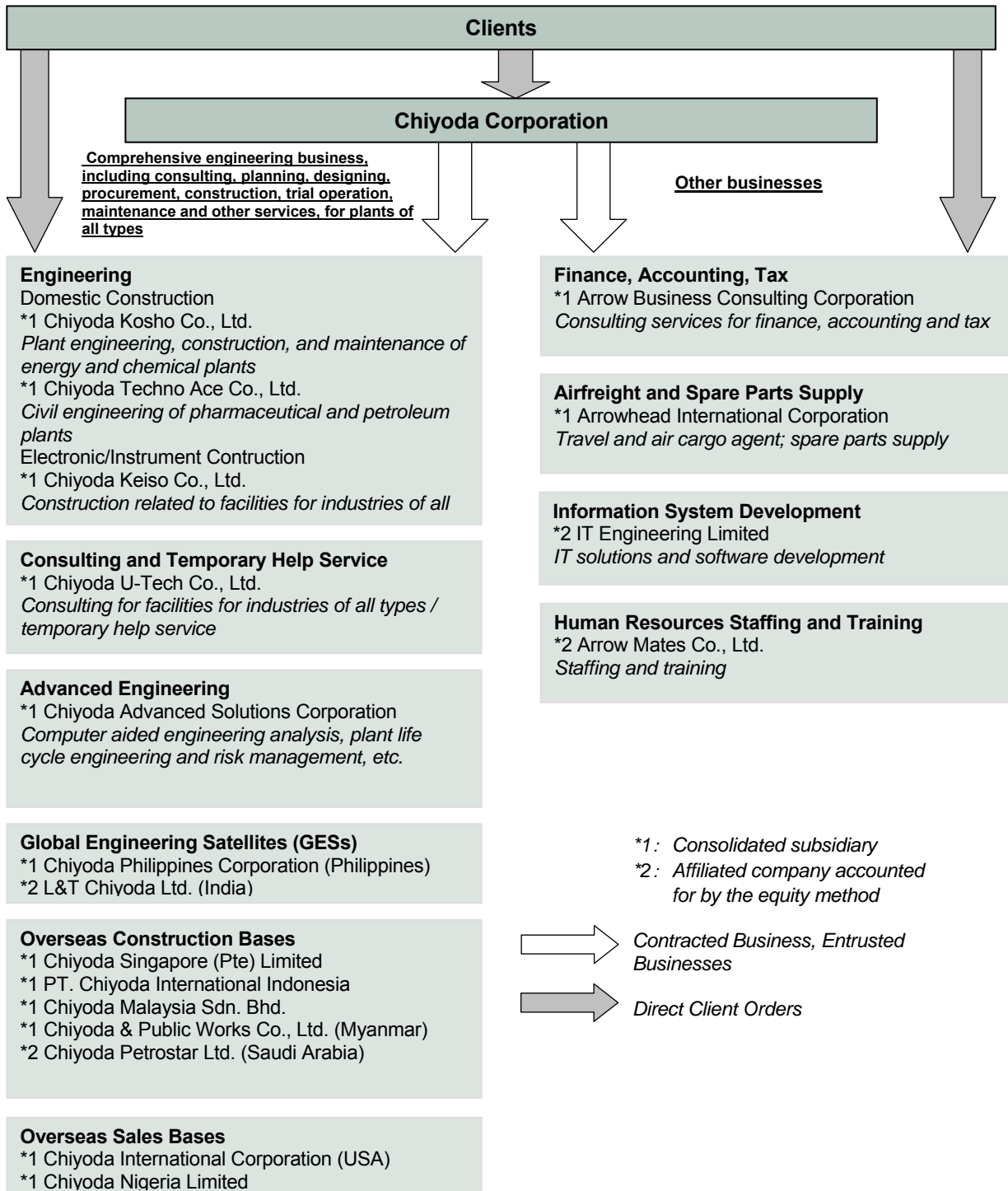
In the event that a serious accident, such as an explosion or fire, occurs at a plant that is under construction or that has been constructed by Chiyoda, and Chiyoda is judged to be responsible for the cause of the accident, there could be an impact on earnings.

To prevent the occurrence of such unforeseeable incidents, Chiyoda has established the best possible quality management, construction safety management and other risk management systems. In addition, Chiyoda purchases suitable insurance coverage, secures contractual provisions that appropriately divide the burden of damages with customers, and takes other actions to avoid or minimize these risks.

## 2. State of the Group

The Chiyoda Group of companies consists of the parent company, 16 subsidiaries, and 5 equity method affiliates. As a comprehensive engineering services organization, the Group's central business is its expertise in providing the most efficient solutions based on an accurate understanding of customer needs. By using highly advanced technologies and achieving the optimal combination of the project execution skills of Group companies, all Group members work in unison to conduct business operations. Through this approach, the Group responds flexibly to the needs of today's markets, society and regions. The Group's business is divided into Engineering Businesses and Other Businesses, and the Group's structure is outlined below.

### Business Flowchart



### **3. Management Policies**

#### **1. Basic Management Policies**

Chiyoda aims to conduct Group management so as to earn the trust and understanding of shareholders, customers, suppliers, employees, communities and all other stakeholders.

Based on the above fundamental management philosophy, Chiyoda formulated, and on February 17, 2005 announced, a medium-term management plan called “Double Step-Up Plan 2008” (DSP2008). The goal of the plan, which started in fiscal 2005 (the year ended March 31, 2006) and ends in fiscal 2008 (the year ending March 31, 2009), is to enable Chiyoda to consistently increase earnings.

In steadily implementing its DSP2008 medium-term management plan, Chiyoda has established the slogan “Sustained Growth, Future Development”<sup>\*</sup> with the aim of further solidifying the business foundations of Chiyoda’s Engineering Business and further increasing corporate value for the next generation. Based on this slogan, Chiyoda will sow the seeds of future strategies for further significant progress by focusing its business activities on sustaining the steady execution of construction contracts already received and the creation of a culture of safety.

<sup>\*</sup>To establish a course toward the future by carrying on the efforts of those who went before

Specifically, under the policy of “intellectual property that defines the future,” Chiyoda intends to focus on strengthening and using its own tangible and intangible intellectual property, including project execution, within Chiyoda. Chiyoda’s intellectual property comprises not only environmental, catalyst and other elemental technologies but also execution technologies including enhancements to state-of-the-art integrated project engineering systems (i-Plant 21).

Next, in technological development, Chiyoda will work to develop environmentally friendly technologies such as LNG and other natural gas-related technologies for clean energy, as well as technologies for producing clean fuels from heavy oil.

In operations, Chiyoda aims to develop superb people management. It intends to create an organization and company that continually fulfills its social responsibilities by creating a more mature organization through the promotion of personal development in the workplace to establish respect and trust.

#### **2. Targeted Performance Indicators**

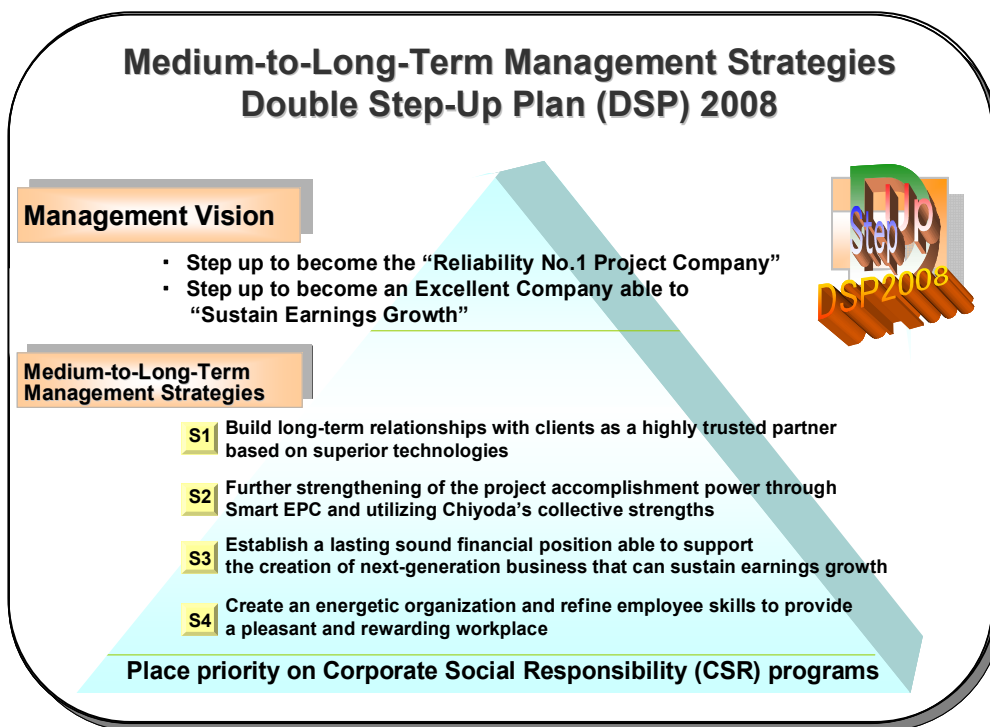
The management goal of the DSP2008 medium-term management plan is to raise the shareholders’ equity ratio to at least 30%<sup>\*</sup> by the year ended March 31, 2009 (fiscal 2008). Chiyoda aims to further strengthen profitability through internal efforts and establish a consistently sound financial structure that can support the creation of next-generation businesses.

<sup>\*</sup> Equivalent to the current net worth ratio, one of the indices of the DSP2008 medium-term management plan as announced in February 2005.

### 3. Medium-to-Long-Term Management Strategies

There are two fundamental approaches in the DSP2008 medium-term management plan. The first is to resolutely retain the innovative thinking needed to “capitalize on change, and take on challenges posed by change” with the aim of becoming “the Reliability No. 1 Project Company.” The second is to aim to become “an excellent company that can increase earnings” through cumulative internal efforts, including continuously strengthening competitiveness and improving business processes.

Chiyoda has established medium-to-long-term strategies based on these fundamental approaches. All Chiyoda employees from senior management down are working as one to achieve management goals. To reach these goals, balanced scorecards are used to facilitate comprehensive management of key targets for each strategy, action plans and the status of progress.



### 4. Issues to be Dealt With

With the backlog of contracts at a high level, project execution is becoming more challenging due to an increase in external factors causing uncertainty, including the tight supply of construction workers at one of the world’s largest LNG projects currently underway in Qatar and large-scale petroleum projects in Japan. Chiyoda will focus on steady execution of large-scale projects in Japan and overseas, including LNG contracts already received, by strengthening partnerships and IT systems, in addition to putting an even stricter focus on risk management and safety. By doing so, Chiyoda will ensure a higher level of reliability to respond to customer demands for increasingly large and complex plant projects, and steadily implement the DSP2008 medium-term management plan.

In addition, Chiyoda will promote the steady fulfillment of its social responsibilities while sowing the seeds of its next strategies.

## Financial Statements

### 1. Consolidated Balance Sheets

	Millions of Yen				Difference
	As of Mar. 31, 2007	%	As of Mar. 31, 2006	%	
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents and time deposits .....	77,177		47,033		30,143
Notes and accounts receivable-trade .....	38,659		46,976		(8,317)
Costs of construction contracts in process .....	27,656		17,923		9,732
Deferred tax assets .....	5,884		1,750		4,133
Jointly controlled asset of joint venture .....	256,060		131,336		124,724
Other .....	12,640		11,769		870
Allowance for doubtful accounts .....	(40)		(167)		127
<b>Total Current Assets .....</b>	<b>418,037</b>	<b>94.4</b>	<b>256,623</b>	<b>91.7</b>	<b>161,413</b>
<b>Fixed Assets</b>					
Property, plant and equipment					
Buildings and structures .....	6,615		6,453		
Accumulated depreciation .....	3,614		3,440		
<b>Book value of buildings and structures</b>	<b>3,001</b>		<b>3,013</b>		<b>(12)</b>
Machinery and equipment .....	1,162		817		
Accumulated depreciation .....	271		279		
<b>Book value of machinery and equipment</b>	<b>891</b>		<b>537</b>		<b>353</b>
Tools, furniture and fixtures .....	5,543		5,248		
Accumulated depreciation .....	3,806		3,567		
<b>Book value of tools, furniture and fixtures</b>	<b>1,737</b>		<b>1,681</b>		<b>56</b>
Land .....	1,835		1,852		(17)
<b>Total property, plant and equipment .....</b>	<b>7,464</b>	<b>1.7</b>	<b>7,085</b>	<b>2.6</b>	<b>379</b>
<b>Intangible fixed assets .....</b>	<b>3,352</b>	<b>0.7</b>	<b>3,168</b>	<b>1.1</b>	<b>184</b>
Investments and other assets					
Investment securities .....	8,740		5,701		3,038
Long-term loans .....	—		533		(533)
Long-term accounts receivable .....	—		662		(662)
Deferred tax assets .....	2,056		4,157		(2,101)
Other investments .....	3,841		3,522		318
Allowance for doubtful accounts .....	(539)		(1,469)		929
Allowance for capital loss on investments .....	—		(263)		263
<b>Total investments and other assets .....</b>	<b>14,097</b>	<b>3.2</b>	<b>12,844</b>	<b>4.6</b>	<b>1,253</b>
<b>Total Fixed Assets .....</b>	<b>24,915</b>	<b>5.6</b>	<b>23,097</b>	<b>8.3</b>	<b>1,817</b>
<b>Total Assets .....</b>	<b>442,952</b>	<b>100.0</b>	<b>279,721</b>	<b>100.0</b>	<b>163,231</b>

	Millions of Yen				Difference
	As of Mar. 31, 2007		As of Mar. 31, 2006		
		%		%	
<b>Liabilities and Shareholders' Equity</b>					
<b>Current Liabilities</b>					
Notes and accounts payable-trade .....	86,813		85,901		911
Short-term loans .....	96		46		50
Income taxes payable .....	13,070		3,989		9,080
Deferred tax liabilities .....	—		1		(1)
Advance receipts on construction contracts .....	231,818		101,979		129,839
Allowance for warranty costs for completed works .....	1,581		1,870		(289)
Allowance for losses on construction contracts .....	10		146		(136)
Accrued bonuses .....	5,096		3,856		1,240
Other .....	12,957		7,400		5,556
<b>Total Current Liabilities .....</b>	<b>351,444</b>	<b>79.3</b>	<b>205,192</b>	<b>73.4</b>	<b>146,252</b>
<b>Non-Current Liabilities</b>					
Long-term debt .....	10,067		10,168		(101)
Deferred tax liabilities .....	—		0		(0)
Liability for retirement benefits .....	1,789		7,962		(6,172)
Liability for retirement benefit to directors .....	486		430		56
Other liabilities .....	1,748		136		1,612
<b>Total Non-Current Liabilities .....</b>	<b>14,093</b>	<b>3.2</b>	<b>18,698</b>	<b>6.7</b>	<b>(4,604)</b>
<b>Total Liabilities .....</b>	<b>365,537</b>	<b>82.5</b>	<b>223,890</b>	<b>80.1</b>	<b>141,647</b>
<b>Minority Interests .....</b>	<b>—</b>	<b>—</b>	<b>322</b>	<b>0.1</b>	<b>(322)</b>
<b>Shareholders' Equity</b>					
Common stock .....	—	—	12,901	4.6	(12,901)
Additional paid-in capital .....	—	—	6,684	2.4	(6,684)
Retained earnings .....	—	—	36,877	13.2	(36,877)
Unrealized gain on available-for-sale securities .....	—	—	44	0.0	(44)
Foreign currency translation adjustments .....	—	—	(323)	(0.1)	323
Treasury stock .....	—	—	(676)	(0.3)	676
<b>Total Shareholders' Equity .....</b>	<b>—</b>	<b>—</b>	<b>55,508</b>	<b>19.8</b>	<b>(55,508)</b>
<b>Total Liabilities, Minority Interests and Shareholders' Equity .....</b>	<b>—</b>	<b>—</b>	<b>279,721</b>	<b>100.0</b>	<b>(279,721)</b>
<b>Net Assets</b>					
Shareholders' equity .....					
Common stock .....	12,928	2.9	—	—	12,928
Additional paid-in capital .....	6,711	1.5	—	—	6,711
Retained earnings .....	58,398	13.2	—	—	58,398
Treasury stock .....	(905)	(0.2)	—	—	(905)
<b>Total shareholders' equity .....</b>	<b>77,133</b>	<b>17.4</b>	<b>—</b>	<b>—</b>	<b>77,133</b>
<b>Valuation and Exchange Rate Adjustments</b>					
Unrealized gain on available-for-sale securities .....	247	0.1	—	—	247
Deferred loss on hedge transactions .....	(408)	(0.1)	—	—	(408)
Foreign currency translation adjustments .....	49	0.0	—	—	49
<b>Total valuation and exchange rate adjustments .....</b>	<b>(110)</b>	<b>(0.0)</b>	<b>—</b>	<b>—</b>	<b>(110)</b>
Minority interests .....	392	0.1	—	—	392
<b>Total Net Assets .....</b>	<b>77,414</b>	<b>17.5</b>	<b>—</b>	<b>—</b>	<b>77,414</b>
<b>Total Liabilities and Net Assets .....</b>	<b>442,952</b>	<b>100.0</b>	<b>—</b>	<b>—</b>	<b>442,952</b>



## 2. Consolidated Statements of Income

	Millions of Yen				Difference
	Apr. 1, 2006 – Mar. 31, 2007	%	Apr. 1, 2005 – Mar. 31, 2006	%	
<b>Revenues</b> .....	<b>484,895</b>	<b>100.0</b>	<b>390,875</b>	<b>100.0</b>	<b>94,020</b>
<b>Cost of Revenues</b> .....	<b>445,158</b>	<b>91.8</b>	<b>360,322</b>	<b>92.2</b>	<b>84,836</b>
Gross profit .....	39,736	8.2	30,552	7.8	9,183
<b>Selling, General and Administrative Expenses</b> .....	<b>11,036</b>	<b>2.3</b>	<b>9,823</b>	<b>2.5</b>	<b>1,212</b>
Operating income .....	28,700	5.9	20,729	5.3	7,970
<b>Other Income</b>					
Interest .....	8,442		2,638		
Dividend income .....	68		29		
Equity in earnings of associated companies .....	375		193		
Rent income .....	259		269		
Other .....	226		151		
<b>Total Other Income</b> .....	<b>9,373</b>	<b>1.9</b>	<b>3,280</b>	<b>0.8</b>	<b>6,092</b>
<b>Other Expenses</b>					
Interest expense .....	310		302		
Foreign exchange loss .....	628		174		
Cost of rent income .....	138		148		
Other .....	197		223		
<b>Total Other Expenses</b> .....	<b>1,275</b>	<b>0.2</b>	<b>848</b>	<b>0.2</b>	<b>426</b>
Ordinary income .....	36,797	7.6	23,161	5.9	13,635
<b>Extraordinary Gain</b>					
Reversal of allowance for doubtful accounts .....	742		1,367		
Reversal of allowance for investment loss .....	263		—		
Other .....	166		223		
<b>Total Extraordinary Gain</b> .....	<b>1,171</b>	<b>0.2</b>	<b>1,590</b>	<b>0.4</b>	<b>(419)</b>
<b>Extraordinary Loss</b>					
Loss on valuation of investment securities .....	14		—		
Loss on termination of certain retirement benefit plans .....	—		1,995		
Settlement of construction contract .....	—		469		
Impairment loss .....	—		127		
Loss on removal of property, plant and equipment .....	—		20		
Other .....	18		233		
<b>Total Extraordinary Loss</b> .....	<b>33</b>	<b>0.0</b>	<b>2,845</b>	<b>0.7</b>	<b>(2,812)</b>
Profit before income taxes and minority interests .....	37,935	7.8	21,906	5.6	16,028
Income taxes current .....	16,209		4,478		
Income taxes deferred .....	(1,866)		(2,011)		
<b>Total Tax</b> .....	<b>14,342</b>	<b>2.9</b>	<b>2,467</b>	<b>0.6</b>	<b>11,875</b>
Minority interests in net income .....	60	(0.0)	39	(0.0)	21
<b>Net Income</b> .....	<b>23,531</b>	<b>4.9</b>	<b>19,400</b>	<b>5.0</b>	<b>4,131</b>

### 3. Consolidated Statements of Cash Flow

	<i>Millions of Yen</i>		
	Apr. 1, 2006 – Mar. 31, 2007	Apr. 1, 2005 – Mar. 31, 2006	Difference
<b>Cash Flow from Operating Activities</b>			
Income before income taxes and minority interests .....	37,935	21,906	16,028
Depreciation and amortization .....	1,507	1,468	38
Amortization of goodwill .....	—	68	(68)
Loss on impairment of long-lived assets .....	—	127	(127)
Reversal of allowance for doubtful accounts - net .....	(1,056)	(1,354)	297
Interest and dividend income .....	(8,511)	(2,667)	(5,843)
Interest expense .....	310	302	8
Foreign exchange gain - net .....	(73)	(236)	162
Equity in earnings of associated companies .....	(375)	(193)	(182)
Loss on sales and disposal of property, plant and equipment .....	—	20	(20)
Loss on partial termination of a defined benefit pension plan .....	—	1,995	(1,995)
Project settlement money .....	—	469	(469)
Decrease (increase) in trade notes and accounts receivable, and costs and estimated earnings on long-term construction contracts .....	8,484	(9,100)	17,585
Decrease (increase) in costs of construction contracts in process .....	(9,728)	7,095	(16,823)
Increase in trade notes and accounts payable .....	947	11,122	(10,174)
Increase in advance receipts on construction contracts .....	129,741	57,479	72,261
Increase in accrued bonuses .....	1,240	1,039	201
Increase (decrease) in retirement benefits .....	(6,172)	798	(6,971)
Provision for (reversal of) warranty costs for completed works .....	(305)	1,103	(1,408)
Increase (decrease) in allowance for investment loss .....	(136)	146	(282)
Decrease (increase) in accounts receivable - other .....	1,503	(7,624)	9,128
Decrease (increase) in jointly controlled assets of joint venture .....	(124,724)	(81,382)	(43,341)
Decrease in long-term receivables .....	—	2,071	(2,071)
Increase (decrease) in consumption taxes payable .....	(1,707)	1,031	(2,738)
Increase (decrease) in deposits received .....	3,918	(1,752)	5,671
Increase in transfer of defined benefit pension plan payable .....	2,444	—	2,444
Other .....	7,232	(2,230)	5,001
Subtotal .....	42,475	6,163	36,311
Interest and dividends received .....	335	321	14
Interest paid .....	(317)	(303)	(14)
Project settlement money paid .....	(469)	—	(469)
Income taxes paid .....	(6,492)	(944)	(5,547)
<b>Net Cash Provided by Operating Activities .....</b>	<b>35,531</b>	<b>5,237</b>	<b>30,294</b>

## Consolidated Statements of Cash Flow (Continued)

	<i>Millions of Yen</i>		
	Apr. 1, 2006 – Mar. 31, 2007	Apr. 1, 2005 – Mar. 31, 2006	Difference
<b>Cash Flow from Investing Activities</b>			
Proceeds from refunds of fixed deposits .....	31	703	(672)
Purchases of property, plant and equipment .....	(460)	(618)	158
Proceeds from sales of property, plant and equipment .....	42	139	(96)
Purchase of intangible fixed assets .....	(1,319)	(1,236)	(83)
Payments for purchase of investment securities .....	(2,419)	(1,272)	(1,146)
Proceeds from sales of investment securities .....	32	148	(116)
Payment for purchase of consolidated subsidiary stock .....	—	(121)	121
Net decrease in short-term loans .....	—	1	(1)
Disbursements for originating long-term loans .....	(15)	(33)	18
Proceeds from collections of long-term loans .....	609	3,340	(2,730)
Other .....	40	0	40
<b>Net Cash (Used in) Provided by Investing Activities .....</b>	<b>(3,458)</b>	<b>1,051</b>	<b>(4,509)</b>
<b>Cash Flow from Financing Activities</b>			
Proceeds from long-term debt .....	—	10,000	(10,000)
Repayments of long-term debt .....	(46)	(10,101)	10,055
Proceeds from issuance of common stock .....	54	357	(303)
Payment of cash dividends .....	(1,915)	(1,139)	(775)
Cash dividends paid to minority shareholders .....	(54)	(36)	(18)
Other - net .....	(229)	(417)	188
<b>Net Cash Used in Financing Activities .....</b>	<b>(2,191)</b>	<b>(1,338)</b>	<b>(853)</b>
<b>Foreign Currency Translation Adjustments on Cash and Cash Equivalents .....</b>	<b>357</b>	<b>333</b>	<b>24</b>
<b>Net Increase in Cash and Cash Equivalents ...</b>	<b>30,239</b>	<b>5,284</b>	<b>24,955</b>
<b>Cash and Cash Equivalents, Beginning of Year .....</b>	<b>46,878</b>	<b>41,594</b>	<b>5,284</b>
<b>Cash and Cash Equivalents of Exclusion of Consolidated Subsidiaries .....</b>	<b>(66)</b>	<b>—</b>	<b>(66)</b>
<b>Cash and Cash Equivalents, End of Year .....</b>	<b>77,051</b>	<b>46,878</b>	<b>30,173</b>

## 4. Production, Orders and Sales

### 1. Orders

	Millions of Yen							
	Apr. 1, 2006 – Mar. 31, 2007				Apr. 1, 2005 – Mar. 31, 2006			
	New contracts		Backlog		New contracts		Backlog	
	Amt	%	Amt	%	Amt	%	Amt	%
<b>Business Segment</b>								
<b>Engineering</b>								
LNG plants .....	122,045	21.9	646,332	61.6	675,208	83.9	846,922	88.2
	-81.9%		[15,291]				[23,671]	
Gas and power utilities .....	298,751	53.5	297,016	28.3	16,848	2.1	32,070	3.3
	+1,673.2%		[-159]				[1,066]	
Gas chemicals .....	521	0.1	1,714	0.2	515	0.1	2,606	0.3
	+1.3%		[6]				[82]	
Petroleum and petrochemicals .....	85,251	15.3	73,104	7.0	73,328	9.1	55,624	5.8
	+16.3%		[438]				[939]	
General chemicals .....	19,377	3.5	17,769	1.7	19,990	2.5	19,477	2.0
	-3.1%		[-166]				[-510]	
Industrial machinery .....	13,881	2.5	5,413	0.5	6,483	0.8	1,738	0.2
	+114.1%		[-34]				[-1]	
Environment and other .....	11,091	2.0	7,327	0.7	7,134	0.9	2,098	0.2
	+55.5%		[-47]				[-509]	
<b>Total Engineering</b>	<b>550,922</b>	<b>98.8</b>	<b>1,048,679</b>	<b>100.0</b>	<b>799,509</b>	<b>99.4</b>	<b>960,538</b>	<b>100.0</b>
	-31.1%		[15,328]				[24,737]	
Other .....	6,785	1.2	—	—	4,721	0.6	—	—
	+43.7%		[—]				[—]	
<b>Total</b> .....	<b>557,707</b>	<b>100.0</b>	<b>1,048,679</b>	<b>100.0</b>	<b>804,231</b>	<b>100.0</b>	<b>960,538</b>	<b>100.0</b>
	-30.7%		[15,328]				[24,737]	

### Breakdown of Domestic and Overseas Orders

	Millions of Yen							
	Apr. 1, 2006 – Mar. 31, 2007				Apr. 1, 2005 – Mar. 31, 2006			
	New contracts		Backlog		New contracts		Backlog	
	Amt	%	Amt	%	Amt	%	Amt	%
Domestic .....	155,297	27.8	145,542	13.9	112,720	14.0	97,484	10.1
	+37.8%		[-689]				[-998]	
Overseas .....	402,409	72.2	903,136	86.1	691,510	86.0	863,054	89.9
	-41.8%		[16,017]				[25,736]	
<b>Total</b> .....	<b>557,707</b>	<b>100.0</b>	<b>1,048,679</b>	<b>100.0</b>	<b>804,231</b>	<b>100.0</b>	<b>960,538</b>	<b>100.0</b>
	-30.7%		[15,328]				[24,737]	

(Note)

Numbers in brackets [ ] under "Backlog of orders" indicate the total of increases or decreases accompanying foreign currency translation adjustments related to foreign currency business, increases resulting from adjustments for new contracts, and decreases resulting from contractual changes in orders received in previous fiscal years.

## 2. Sales

Business Segment	Millions of Yen			
	Apr. 1, 2006 – Mar. 31, 2007		Apr. 1, 2005 – Mar. 31, 2006	
	Amt	%	Amt	%
<b>Engineering</b>				
LNG plants.....	337,927	69.7	230,227	58.9
	+46.8%			
Gas and power utilities .....	33,646	6.9	54,278	13.9
	-38.0%			
Gas chemicals .....	1,419	0.3	7,952	2.0
	-82.2%			
Petroleum and petrochemicals .....	68,210	14.1	53,733	13.8
	+26.9%			
General chemicals.....	20,918	4.3	24,298	6.2
	-13.9%			
Industrial machinery .....	10,172	2.1	7,602	1.9
	+33.8%			
Environment and other .....	5,815	1.2	8,061	2.1
	-27.9%			
<b>Total Engineering</b>	<b>478,110</b>	<b>98.6</b>	<b>386,153</b>	<b>98.8</b>
	<b>+23.8%</b>			
Other.....	6,785	1.4	4,721	1.2
	+43.7%			
<b>Total</b> .....	<b>484,895</b>	<b>100.0</b>	<b>390,875</b>	<b>100.0</b>
	<b>+24.1%</b>			

### Breakdown of Domestic and Overseas Sales

	Millions of Yen			
	Apr. 1, 2006 – Mar. 31, 2007		Apr. 1, 2005 – Mar. 31, 2006	
	Amt	%	Amt	%
Domestic .....	106,550	22.0	105,329	26.9
	+1.2%			
Overseas.....	378,345	78.0	285,545	73.1
	+32.5%			
<b>Total</b> .....	<b>484,895</b>	<b>100.0</b>	<b>390,875</b>	<b>100.0</b>
	<b>+24.1%</b>			

(Notes)

- (1) "Status of production" is not listed, because it is difficult to define production results for the Chiyoda Group.  
 (2) The breakdown of sales results and percentages of total sales by main customers is as follows.

Millions of Yen					
Apr. 1, 2006 – Mar. 31, 2007			Apr. 1, 2005 – Mar. 31, 2006		
Customer	Amt	%	Customer	Amt	%
Qatar Liquefied Gas Company Limited (2)	127,896	26.4	Qatar Liquefied Gas Company Limited (2)	72,562	18.6
Ras Laffan Liquefied Natural Gas Co., Ltd. (3)	72,283	14.9	Sakhalin Energy Investment Co., Ltd.	55,531	14.2
Qatar Liquefied Gas Company Limited (3)	65,534	13.5	Ras Laffan LNG Co., Ltd.	44,646	11.4
Sakhalin Energy Investment Co., Ltd.	48,624	10.0			

- (3) Amounts contained in these tables do not include consumption tax.