

February 19, 2021

Evaluation of the Effectiveness of the Board of Directors (FY2020)

EBARA CORPORATION

Board of Directors

1. Purpose of Board Evaluation

Effectiveness of corporate governance is essential for continuous growth and enhancement of value of the EBARA Group. The roles and responsibilities of the Board of EBARA CORPORATION, which is the core of the Group, must be effective in order to achieve this. In line with this intent, the Board conducts an evaluation of its own effectiveness every year, conducting a self-review, identifies issues and resolving them, for the purpose of aiming toward continuous governance reform.

2. Background and Process of Introduction of Board Evaluation in the Company

The Company made the transition to a Company with Three Committees (Nomination, Compensation and Audit) and began board evaluation in 2015. The transition to a Company with Three Committees (Nomination, Compensation and Audit) resulted in the clarification that “the role of Directors (Board of Directors) is oversight” and a strong awareness of the necessity to check and govern not only outward aspects such as the number and composition of members of the Board, but also its effectiveness. This is because the Board recognized the importance of a PDCA cycle of continuously reflecting the results of self-evaluation of effectiveness while proceeding with governance reform for the Board to be effective.

In particular, priority consideration has been given to the three following points over the past few years.

1) Agenda setting and quality of discussion in the Board:

The Board needs to conduct self-review of whether it adequately fulfills its role as the highest decision-making body in management, such as the appropriateness of agenda setting, respect for the opinions of individual Directors and the provision of necessary and sufficient materials for discussion in resolutions, deliberation and reporting.

2) Size and composition of the Board:

From the perspective of separation of oversight and management execution, governance reform must be implemented through board evaluation by reviewing the number of Executive Directors, the percentage, number and diversity of Independent Directors, and the requirements for the role of Chairman of the Board to be assumed by an Independent Director.

3) Effectiveness of the Nomination, Compensation and Audit Committees:

It is necessary to confirm whether the committees perform their required functions through self-evaluation or peer review by individual Directors. In particular, it must be possible to explain the nomination process of candidates for Director and candidates for Representative Executive Officer.

For this reason, the evaluation of effectiveness is carried out by conducting a survey using a questionnaire with over 100 items including not only outward items such as the total number of Directors and the number and composition of Independent Directors, but also whether it is an environment in which each Director can easily voice opinions, whether the meetings of Independent Directors held prior to board meetings are functioning, whether the committees have provided adequate reports to the Board, and whether the Chairman of the Board fulfills his role. Furthermore, the Company has established the board evaluation process having interviews of individual Directors conducted by external independent experts (“external experts”), verifying and ascertaining the actual conditions through comparisons with Japanese and overseas standards or benchmark companies, and spending adequate time to discuss these in the Board. Improvements have been made every year while accumulating a cycle of self-review by the Board over the five years since the commencement of board evaluation.

3. Governance Reform Based on Directors’ Awareness of Board Evaluation

The board evaluation conducted over the past five years has led to a diverse range of cases of the Board gaining a deeper understanding and leading to reform. An excerpt of the major points included among these is shown below.

[Main points leading to reform through board evaluation]

| Item | Details |
|-----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1) Agenda and discussion in the Board: | |
| (i) Strengthening of discussion of medium- to long-term issues | Based on the awareness that weight on discussion of medium-to long-term issues should be further increased, the Board has included the long-term management vision and the medium-term management plan for realizing this into a year-round agenda item, and now spends time discussing the strategies, organizational structures and personnel strategies of each business based on these by incorporating them into agenda items from the outset. |

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| (ii) Improvement of quality and deepening of discussion | Meetings of Independent Directors were held a few days before board meetings, and upon receiving explanation of the major points on issues presented to the Board by the executive officers in charge, Independent Directors have a deeper understanding and freely discussed these issues. Based on the discussion here, the Board shared the awareness that the quality of discussion in the Board would increase by each of the Independent Directors speaking based on their own perspective and responsibility with an understanding of the issues. The significance of meetings of Independent Directors was also confirmed in the board evaluation. |
| 2) Size and composition of the Board of Directors | |
| (i) Number and Composition of Independent Directors | With regard to the number and composition of Independent Directors, diversity of background and experience is important, and the importance of the free exchange of diverse opinions was confirmed considering unpredictable social environment of the future. The validity of the system in which Independent Directors account for seven of the ten current Directors was also confirmed in the board evaluation. |
| (ii) Internal Directors concurrently involved in the execution of business | The awareness that the current system in which the number of Directors concurrently involved in the execution of business has been reduced to have one Representative Executive Officer promotes the separation of oversight and management execution and has further clarified the responsibility of management team and the role of the Board was shared in the board evaluation. |
| (iii) Appointment of Chairman of the Board of Directors | A system in which an Independent Director serves as the Chairman of the Board has been adopted since 2019 to ensure greater fairness and transparency, and enable the realization of agenda setting from the perspective of shareholders. For this reason, a decision was made to include evaluation of the Chairman in the board evaluation process to check the effectiveness of the system and verify this in the Board every year. |
| 3) Evaluation of effectiveness of committees | |
| (i) Evaluation of effectiveness of committees | The respective functions and roles to be fulfilled by the Nomination, Compensation and Audit Committees were shared, and self-evaluation of whether they have adequate independence and capability to achieve their goals progressed. |
| (ii) Support system for the Audit Committee | The Audit Committee recognized that it is necessary to strengthen the system for supporting Audit Committee in the evaluation of |

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| | effectiveness, and the systems and allocation of personnel for this were expanded. |
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4. This Fiscal Year's Process of Evaluation of Effectiveness

1) Preparation

In early August 2020, the Chairman of the Board discussed the awareness of problems, the current conditions and issues, etc. in the Company's Board with the external experts, and established the direction and method of review of this fiscal year's board evaluation.

2) Data collection (questionnaire, individual interviews, benchmarking analysis)

A survey was conducted by questionnaire in September 2020, and written responses were obtained from all Directors. In addition to conducting analysis of the responses, the external experts conducted individual interviews with all of the Directors in October to directly confirm the thoughts of each Director based on the results of responses to the questionnaire. Two types of benchmarking analysis were also conducted.

3) Reporting and discussion of results

In November, the Chairman received a report on the results obtained from the questionnaires, individual interviews and benchmarking analysis described in 2) above along with a draft report summarizing these from the external experts and the Chairman conducted a review. In December, the results were reported by the external experts in a meeting of the Board of Directors, and deliberation was carried out among Directors based on this. Evaluation of the Chairman was also carried out.

4) Summary of evaluation of effectiveness and determination of details of disclosure

After deliberation, a summary of the evaluation of effectiveness was carried out by the Company's Board, and after discussion in the January meeting of the Board, a resolution on the final details of disclosure was passed in February.

5. Details of the Survey

1) Questions

At the same time as tracking changes in the same questions every year by means of fixed-point observation, new questions were also added from the perspective of responding to changes in social conditions and the issues surrounding the company, resulting in a total of 101 questions being asked.

The self-evaluation questions concerning the Audit Committee were expanded and strengthened this year. The specific items in the questionnaire and interviews are as shown at the end of this document.

2) Benchmarking analysis

Two different forms benchmarking analysis were conducted.

(i) Benchmarking analysis of the corporate governance structure

Benchmarking analysis is conducted every year for the purpose of self-review of the corporate governance structure. A comparison is conducted with the content required by three or more of five governance standards in Japan and overseas (International Corporate Governance Network (ICGN), UK Corporate Governance Code, OECD Principles of Corporate Governance, New York Stock Exchange Listing Rules, Japan's Corporate Governance Code). In addition, a comparison is carried out with the content required in items related to corporate governance in the evaluation items of the Dow Jones Sustainability Indices (DJSI), which is a major global sustainability index.

(ii) Benchmarking analysis related to board operation measures for improving effectiveness

This fiscal year, as a part of board evaluation, benchmarking analysis was conducted based on the materials disclosed by four overseas companies which gained a high evaluation of disclosure of board evaluation and disclosure of the status of activities of the Board, and this was used as a reference for board operational measures aimed at further improving the quality of our board evaluation. The US companies selected were two companies recognized by the Council of Institutional Investors (an organization made up of major US institutional investors) to have excellent disclosure of board evaluation. The UK companies selected were two companies chosen by the Institute of Chartered Secretaries and Administrators (an organization made up of UK governance professionals including company secretaries) as the best companies in terms of disclosure of the board and disclosure of board evaluation.

3) Deliberation in the Board and evaluation of the Chairman

The results of questionnaire responses, the results of individual interviews conducted by the external experts and the results of the two types of benchmarking analysis were shared with all Directors, a report was received from the external experts and intensive discussion was carried out by all Directors. In addition, evaluation of the Chairman was carried out by all Directors excluding the Chairman based on the results of the evaluation of effectiveness, and deliberation of whether or not the Chairman should continue to hold the position the following year was carried out.

6. Evaluation Results

1) Insights from the questionnaire responses and individual interviews

It was confirmed that Directors' evaluations of the current state of the Board and Committees were high, adequate discussion is carried out on significant issues in the Board and Committees, and efforts to address the matters brought up as issues last year have progressed.

With regard to discussion by Directors, it was confirmed that awareness of important management issues faced by the Company in the medium to long term increased further and deeper discussion was carried out due to adequate discussion of the Long-term Vision: E-Vision 2030 and the new medium-term management plan: E-Plan 2022. Furthermore, when COVID-19 spread at the start of 2020, the Board deliberated on the medium- to long-term impact, and support for short-term measures implemented by executives was provided in a timely and appropriate manner.

With regard to the size and composition of the Board, it was confirmed that it has a more appropriate size and composition due to gradually reducing the number of inside Directors and adopting the current system with a Director concurrently executing business serving as the sole Representative Executive Officer (with seven of the ten Directors being Independent Directors), and that high-quality discussion is being realized through the current composition of Independent Directors centered on people with management experience along with legal and accounting experts. Furthermore, it was confirmed that Independent Directors gaining an adequate understanding of issues in meetings of Independent Directors before participating in board meetings has contributed to improving board effectiveness, and that the proceedings of the Board by the Chairman, who is an Independent Director, are highly evaluated.

With regard to the Nomination, Compensation and Audit Committees, it was confirmed that the roles of each committee have been clearly defined as a Company with Three Committees (Nomination, Compensation and Audit), and that sufficient discussion is carried out based on these. It was confirmed that the size and composition of each are appropriate for fulfilling their respective roles, and that adequate discussion is carried out in the committees. With regard to the activities of the Audit Committee, the content of the questionnaire was strengthened and expanded this year. It was confirmed that the Audit Committee has a high self-evaluation of the current state and effectiveness of the audit system.

As a result of discussion in the Board based on these analyses, the Company's Board found that the board effectiveness was fully ensured.

2) Insights from two forms benchmarking analysis

(i) Corporate governance structure

In comparisons with governance standards/guidelines and DSI standards conducted as fixed-point observation every year, it was confirmed that both are generally at an equivalent level.

(ii) Board operation measures for improving effectiveness

In order to ensure the board effectiveness, evaluation analysis was conducted by selecting companies recognized to have good disclosure. These companies provide detailed and specific content on the activities of the board and committees, details of the roles and responsibilities of directors and efforts aimed at improving the capabilities of directors, which are matters of interest to investors, while giving sufficient attention to confidentiality. Although it was confirmed that many of these are already effectively in place in the Company, there were some useful points with regard to the explicit documentation of measures even after taking into the consideration the business environment differences between overseas companies and the Company.

7. Future Action

Through discussion in the Board, the Company will continue with existing reforms, and also further increase the board effectiveness by continuously discussing the following matters in the board meetings, etc.

In order to link the results of governance reforms to the enhancement of corporate value, the Company will select important medium- to long-term issues, provide sufficient opportunities for discussion, and continue to provide support to enable executives to speed up the execution of business. The Company will also continue to periodically verify, evaluate and follow up on the results.

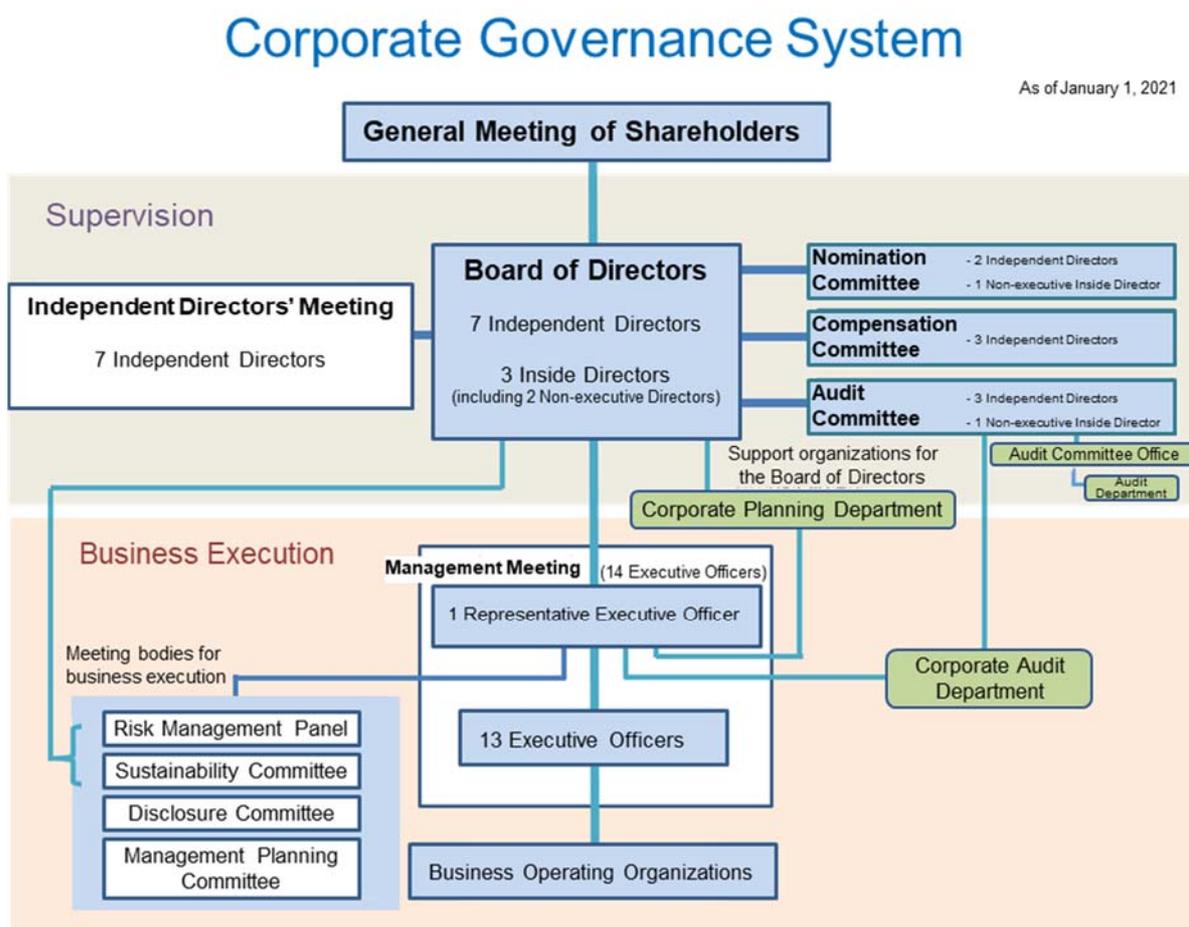
- With regard to the board composition and maintaining diversity, based on discussion in the Nomination Committee, the Board will share the issues concerning the composition of the human resource portfolio and the succession plan for Independent Directors from a medium- to long-term perspective
- Support for the executives will be provided by discussing basic approaches enabling more strategic and effective implementation of dialog with capital markets and dialog with the media, keeping

capital markets in mind.

- Based on benchmarking analysis, a review will be conducted on explicit documentation of guidelines, etc. that have already been implemented in the Company but have not necessarily been explicitly documented.

End

[Reference: Chart of the EBARA Corporation Corporate Governance System (As of January 1, 2021)]



[Items in the Questionnaire]

- (i) Roles and functions of the Board
- (ii) Size and composition of the Board
- (iii) Status of operation of the Board
- (iv) Composition and roles of the Nomination Committee
- (v) State of operation of the Nomination Committee
- (vi) Composition and roles of the Compensation Committee
- (vii) State of operation of the Compensation Committee

- (viii) Composition and roles of the Audit Committee
- (ix) State of operation of the Audit Committee (item added this year)
- (x) Support system for Independent Directors
- (xi) Relationships with investors and shareholders
- (xii) Self-evaluation

[Items in Individual Interviews]

- (i) View of business
- (ii) View of management and internal systems
- (iii) Efforts of the Board in the new stage
- (iv) Composition and succession plan for Independent Directors
- (v) View of Chairman
- (vi) Status of the Audit Committee
- (vii) Engagement with capital markets