

EBARA CORPORATION ESG Meeting 2022 Q&A  
Q&A during ESG Meeting 2022 held December 2, 2022

**Speakers**

Masao Asami Director, President, Representative Executive Officer

Hiroshi Oeda Independent Director, Chairman of the Board of Directors

Shugo Hosoda Executive Officer, Division Executive of Corporate Strategic Planning, Finance and Accounting Division

**Participant 1:** First, what is your approach to human capital management? The other question is about the ESG performance linkage.

First of all, you have explained your company's unique approach to human capital management. On the other hand, as I am sure you are aware, the government is conducting research on the relationship between ROIC and human capital, and I would like to hear your company's opinion on this. I would like to ask for your suggestions on how we should think about human capital in relation to the performance of your company as a result.

What types of KPIs would be improved by appointing outside personnel, and what type of performance would be improved? It would be very helpful if you could explain more in connection with financial indicators. This is the first point.

My second question is about the introduction of a system to link ESG evaluation indicators with executive compensation explained at the end. I don't think there is a specific answer, but I would like to know, for example, whether the linkage with the short-term incentive was more correct, or with the long-term incentive, or whether indicators other than CDP and the Global Engagement Survey would have had more appropriate effects.

It would be helpful if you could explain what discussions you had regarding the appropriateness of the evaluation weights and why you arrived at this result.

**Asami:** Regarding the first point, human capital, I think it is quite an important issue. As for where to invest, we will, for example, conduct training to develop human resources that Ebara needs more. We are also considering measures, such as revising the personnel system, including the salary system, in order to obtain the necessary human resources and to make it easier to recruit the necessary human resources.

This will foster new businesses, increase sales and profitability of existing businesses, improve sales efficiency, and promote technological development, thereby facilitating business expansion in the mid to long term.

Since this is about ROIC, Mr. Hosoda, if you have any comments, could you please respond?

**Hosoda:** I don't have anything to add, but I think it takes time for the investment in human capital management to show up in financial figures. I think it is better to think that the results of investment in human capital will be reflected in ROIC, operating income, and business performance.

**Participant 1:** If I may ask for an additional explanation, I understand from your company's materials that you are making various efforts to promote outside personnel, and this time, you are aiming to promote women.

On the other hand, if you have any current issues or thoughts on the efforts in diversity in foreign countries, the so-called global diversity, please provide some supplemental information on that.

**Asami:** Let me explain from my side. I mentioned that our company, which is currently at the bottom left of the diagram on slide 17, aims to become the company depicted on the right side in the future.

Recruitment activities in Japan are conducted by Japanese personnel, but we do not have much involvement in overseas affiliates as a headhunter. Then, there is still a lack of visualization of overseas human resources and things like that.

I would like to improve this situation and eventually establish a system that allows job posting on a global scale. To this end, I think it is very important to create an environment that facilitates the flow of human resources, as well as visualization.

In the past, managers would appoint staff members and send them abroad for one year or two years, calling it global human resources. We are also trying to promote the exchange of human resources by having people from overseas come to Japan not by appointment, but by having them apply for jobs, or by having overseas companies request human resources from Japan, or by having overseas companies request such people from Japan.

We have also made it possible for overseas personnel to apply for management-level training as well, whereas most of the management-level training was targeted at Japanese personnel. We are now promoting initiatives, such as having people who want to receive management training raise their hands, and then selecting from among them to provide global training, including Japanese members.

**Asami:** Regarding your second question, mainly regarding the linkage between ESG and business performance, one of our initiatives is to conduct something like a global engagement survey and reflect the results to improve business performance and engagement. We are trying to incorporate and trying to increase engagement, which should lead to higher business performance.

Mr. Hosoda, could you please add something more about what kind of things and where?

**Hosoda:** Regarding the question of short term or long term, the Global Engagement Survey and the CDP are highly evaluated every year, and next year's evaluation changes, depending on the efforts and improvements made during the year, with a relatively short lead time. We have something that we can see the results of our efforts and the results of our performance.

In that sense, I understand that it is now being implemented in the short term. Some indicators may be better suited to the long term, but for now, they are relatively more compatible or suitable for the short term, so please understand that we are doing so.

**Oeda:** Actually, this was just introduced this year, and we did it to try to introduce it first. If necessary, we will not hesitate to review them. Naturally, we will review our indicators and ratios based on the situation surrounding ESG and other current trends in the world. We started by introducing this system.

I think GES has been effective in many ways, and we are also promoting human rights due diligence and D&I, and I have heard that we have used this as an indicator of employee satisfaction.

**Participant 2:** I have one question for you.

This relates to investments in intangible assets, the so-called R&D, etc. Regarding investments in intangible assets, or R&D, your company has a wide range of intangible assets, from the precision machinery business to elemental technologies, such as the fluid machinery and systems business, and the environmental plants business.

If we look at these businesses as a whole, there seems to be a sense of distance between them, but you have expressed your company's position as an elemental map, so how do you integrate the value of the intangible assets you have developed in each business?

I think this is especially true for new businesses that are free from sectionalism and create new value. How are you aiming to integrate? I think there was a part where you cataloged an elemental map to make it very easy to pick, but how do you aspire to work systematically to create a kind of new fusion reaction? Please let us know if you have any specific initiatives.

**Asami:** Rather than creating this as a catalog, we created it to make it easier for people inside and outside the Company to understand the technology that we have.

For example, when the staff of the precision machinery business is trying to develop something, they can find and use the technology of the fluid machinery and systems business. When someone from the environmental plants business does the same thing, they can find the technology from the precision machinery business. Within the Company, that is the main objective.

It also lets people outside the Company know that Ebara can do something like this. Since I became president, I have had many opportunities to talk about various things that Ebara can do, and I have told people that they are welcome to contact me. If we visualize it in this way, many people will approach us. By making our company's technology visible, we have been approached by many people and able to talk with them.

We have actually had quite a few customers and outside parties contact us after we posted this.

The most obvious example is the precision machinery business, which was launched as a corporate project in 1985. The first product of this business was a dry vacuum pump, which does not use oil. On the downstream side, on the other hand, we need an exhaust gas treatment system that collects and treats harmful gases used in the semiconductor manufacturing process that cannot be released as they are. Without these two components, Ebara's precision machinery business would not have achieved a breakthrough.

Ebara often says that the precision machinery business was born with the fluid machinery and systems business and the environmental plants business as its mother. Because the vacuum pumps in the precision machinery business are made by making the roots blowers that the fluid machinery and systems business had, not single-stage, but multi-stage. As for the exhaust gas treatment equipment mentioned earlier, the environmental plants business had the technology to treat the gas after combustion at the incineration plant and then release it, since it could not be released as it is, so it came out by combining these technologies.

It's been called [inaudible], but I call it conglomerate premium. I would like to see more and more breakthroughs happen by combining the know-how and technology of completely different businesses. The precision machinery business is a good example, and in the hydrogen business, we are trying to do various

things, such as inshore aquaculture, and I hope we can do this while taking advantage of the good and strong points of the various businesses.

**Participant 2:** Therefore, the precision machinery business, which has been a mainstay of the Company's profits, has been born from the elements of internal ventures, so is the purpose of this diagram to create new value or some kind of spark by mapping it with the elements that are building that function and multiplying it with what you have now within the Company?

**Asami:** Yes, that's right. The CMP equipment was exactly the same. In the semiconductor industry, Ebara can make rotating machines. We can make CMP machines that rotate a table to spin wafers and shave them. When cleaning afterwards, we can use water, control the temperature, and control the rotation speed. These things started when a customer approached and told us if we use this part, this part, and this part of the human resources map, which is like a technology elemental table. Ebara can make CMP.

At that time, we did not have this elemental table, but as the customers became acquainted with Ebara, they came to understand what Ebara could do. When customers think that they cannot manufacture semiconductors without doing something like this, and when they want this kind of equipment, they can ask us if we can try it out.

The elemental table is the catalyst for development. This is why we have made it visible again in the form of this elemental table and the human resources map.

**Participant 2:** Thank you. I thought it was very wonderful that you are receiving such inquiries from customers as you move forward with marketing and new business areas.

**Participant 3:** I would like to ask one question. This is a bit of a vague question, but please tell me how you feel about this.

Regarding governance, I was very interested in the fact that you have been working for more than 10 years to put things in proper shape, despite some irregularities, and that it is now working.

In the course of my long experience in this kind of work, I have noticed that recently, the number of companies that are trying to improve their organization has been increasing, but some companies seem to be unable to function even after they have improved their organization.

You mentioned earlier about the Nomination Committee and the president's ability to deny what the previous president did. On the other hand, I think there are many cases in other companies where the president actually decides the next president, even though its nomination committee is chaired by an outside director.

So, my question is, how do you put the soul into it, or rather, how do you take care to make it actually work? I would like to ask both outside and inside directors about the difficulties they have experienced so far, and what they would like to pay more attention to in the future. I know this is a bit vague, but it would be very helpful to share something like your input.

**Asami:** On the executive side, I am the first president to be selected by the Nomination Committee through the process that Mr. Oeda described. Presidents are chosen through such a process.

When Company select the next president, I know who will actually be in charge of execution, and I select the executive officers from among those who are in charge of management and business operations. The person I select will be chosen by the board meeting after the General Meeting of Shareholders.

I think that the Nomination Committee is doing what it is supposed to do by selecting such people as executive officers and appointing them as directors, and by having both the Nomination Committee and each director understand that there are such people at such meetings of independent directors as Oeda explained earlier, and also by putting together a program as Oeda explained earlier.

As for me on the executive side, I understand that I introduce the candidate to the Board and create opportunities for the board members and Nomination Committee members to get to know him or her and that the Nomination Committee does not stick to that but takes a broad view of who the candidate is.

I will show the Nomination Committee and board members people who I see with my own eyes and who I think might be a good prospect. I believe that is my job. That said, I don't think that person will give special consideration to me at all.

**Oeda:** What you just said, about not the form, is exactly right. Our Nomination Committee has always said that substance is more important than form.

For example, the appointment of the president is substantially decided by the Nomination Committee. In the selection of directors, for example, we place importance not on the number of women on the Board or the ratio of outside directors, but on the strengths of individual directors, and we strive to appoint a variety of people who truly meet the diversity requirements.

As I explained earlier, we are conducting full-scale peer review this year to evaluate the effectiveness of directors after they have been appointed, although I think there are still very few companies that do this. At this point, we do not have any problems with how each director is viewed, but if there is a problem, the Chairman will talk to the director and ask for improvements.

On the other hand, there is the independent directors' meeting, which I have also explained. This is where in-depth discussions are held, which improves the effectiveness of the board meeting itself and the quality of the discussions. The board meeting itself becomes more effective and the quality of the discussions improves through the independent directors' meeting.

Therefore, as he said, we are of the exact same opinion that it is the substance, not the form, that counts.

**Participant 3:** Is it quite a burden for independent directors to have very in-depth discussions at the current independent directors' meeting? Also, I often hear that outside directors have difficulty in obtaining internal information, such as advance preparation. In that sense, do you have a steering committee that communicates internal information?

**Oeda:** Discussion will be done thoroughly once at the independent directors' meeting, so I think the burden will be a bit higher than at the general level. This company is very solid in terms of bridging various internal information of our company. There is no hiding of information, and information is provided well within the bounds of common sense.

In addition, the secretariat and the members of the independent directors' meeting communicate well with each other, so I have never felt concerned. I think we are blessed.

**Participant 3:** One last question. This may be a bit beyond the scope, but other companies and Japanese companies are too big, but what are some areas where you can learn from them?

What your company should do may be to create a system that works well, and then continue to work with each individual to do it properly, but please let me know if there are any points you can mention.

**Oeda:** I have two ideas. One is that when we have been evaluating the effectiveness of the Board, we have been studying advanced overseas companies in governance and trying to incorporate such practices. We will continue to do this in the future, though.

I thought that the problem was that we were not able to explain what we were doing properly to the outside, or that we were doing well but were not recognized from the outside. Therefore, we will publicize what we are doing well.

This is one of the issues that we need to address in communicating with the public. I think that is the biggest thing.

**Asami:** If I could say something about Ebara's uniqueness, or what I think is a little different, I would say that we always hold the independent directors' meeting before the board meeting, as I mentioned earlier. And then, of course, the outside director chairs the board meetings, and the agenda can be set by him or her.

In short, instead of listing agendas that are convenient for the executive side, the Chair sets the agenda that he or she thinks is important, and the executive side provides a good explanation for it and productive discussion. I believe it is in the best interest of the Company for each executive officer to speak from his or her background and knowledge.

That's great, so I think my job is to get the necessary information out to the independent directors' meeting, and then to the Board in detail and transparently. It is the executive side that reports at outside board meetings, and I do not do any of that. The executive officer in charge, other than myself, will do that, and I believe it is a kind of serious competition between the independent directors and the executive officers in charge.

Through discussions, the members of the Nomination Committee can learn what each person in charge thinks. I think that is a bit special about Ebara.

**Participant 3:** Generally speaking, the CEO of a typical company hates that kind of thing. Usually, once a president is at the top, he or she wants to control everything, but you have managed that desire very well, haven't you?

**Asami:** I will be very clear about what I want to do, but I have to explain why I want to do it, and then you have to make a resolution. So, it may really be a game through the executive officer in charge, but I think we just need to have a serious discussion about it.

We have to convince the Board to pass a resolution, but that's the way we do it.

**Participant 4:** Thank you very much. I think someone asked a question earlier about the ESG evaluation linked to performance, but I would like to ask an additional question.

In the section on ESG evaluation linked to performance compensation, you mentioned that at the moment it is linked to short-term performance, but is there a possibility that the weighting of ESG indicators will be raised in the future? I also wonder if you have any thoughts on linking this to mid- to long-term performance. Can you tell us a little more about your outlook for the future?

**Oeda:** As I explained earlier, we decided to introduce the system this year, and at that time, we discussed the possibility of revising the system as necessary. Therefore, we will flexibly revise the plan, taking into consideration our company's situation, global trends, and other factors.

As for the current question, we have set the ratio at 10% for the short term for now, but we will consider reviewing this according to the situation, and as for the short and long term, as explained earlier in the introduction process, we do not think it is absolutely short. We would like to be flexible in our approach to this matter, considering a variety of factors and reviewing the situation if necessary.

**Participant 4:** I think you meant that it would be on an as-needed basis, but what kind of trigger do you envision for a review?

**Oeda:** In terms of ESG management, we are promoting various ESG initiatives, so it depends on the progress of these initiatives. What would be the best indicator of the various initiatives going forward? Currently, we believe that CDP and GES are optimal, but if we decide that other indicators are more appropriate as we promote various measures, we will review them as well.

As to the ratio, we will also have to consider how we think about ESG issues, as well as the current trends in the world as reference. We would like to take the initiative in deciding on this matter, referring to various examples in the world.

**Participant 5:** I have two questions.

First, regarding the engagement survey, your Global Engagement Survey score has been improving, and you have set a KPI target of 83% or more by 2030. How can this be improved and what are the details?

And also, what is the gap between the satisfaction level of your employees in Japan and abroad? What are your current assessments and challenges to improve this score?

Another thing that is related to this is the fluid machinery and systems business. I think the market is also paying attention to the Company's strategy of accelerating growth overseas in the area of hydrogen pumps. As you try to compete globally, I think you need to compete for human resources overseas and to encourage your current employees to play an active role.

People with various backgrounds have joined the Ebara Group in the midst of your various overseas acquisitions and so on. In such a situation, it may be a little difficult to instill the spirit or DNA of Ebara in such people and have them play an active role while cooperating with each other in various areas.

In terms of the utilization of human resources, what kind of things have been devised, and what kind of results have been achieved? As time has passed with various acquisitions, please introduce the results of those acquisitions, and what you are furthering now in light of them.

**Asami:** Let me explain from my side.

As for the first question, it is said that scores from overseas are generally higher than those from Japan in the Global Engagement Survey. In the case of Ebara, we have 4,000 to 5,000 employees in Japan, and the remaining 14,000 or 13,000 of the 18,000 employees are overseas.

The same trend is also seen in the case of Ebara, with overseas employees being more engaged. What are we going to do about it, then? It is said that the low score compared to other countries is not due to a lack of motivation on the part of Japanese people, but rather to their way of thinking and national character. We want to raise the score anyway, but we can't just talk about that.

Scores are all available for divisional, supervisory, departmental, and even sectional units. You can even see which areas of engagement are low in various engagement areas.

The human resources department acts as a kind of secretariat, and we have been working for more than three years now to address this issue by implementing the PDCA cycle on a department-by-department and even division-by-division basis, instead of just waiting for one year to decide on an action plan and try it out each year, such as, "This section has this problem now, so let's implement this kind of measure." That is one thing.

There are various issues that need to be addressed, such as whether management's ideas are properly conveyed to employees and whether they are in tune with and sympathize with the ideas of management. There are many things to consider, such as whether the manager is pointing us in the right direction and whether we are sympathetic to what the department is doing.

We continue to work on each of those things, one by one, wondering what we can do to make them better. That is one thing.

Also, we need human resources to promote the overseas development of the fluid machinery and systems business, which you just mentioned. It is really as you say, but it is not limited to that. Including the diversity project, the data strategy team is currently using people analytics to find out what characteristics we want in the right person for the right job.

Rather than wanting to hire people in the first place, the first thing we need to do is to get people interested in Ebara. What should we do to interest the truly capable people who have applied, those who are interested in joining Ebara, or new graduate students? At the entrance point, we should interview those who have come to the Company. I want people to want to join Ebara, which is really good and has such great people who can do this kind of interview.

We also don't want them to feel like it wasn't supposed to be like this after they enter. Whether they are mid-career or new graduates, we want to create a comfortable work environment so that they will fit in well with the Company, including the internal network, and we want them to play an active role in the Company through onboarding. We are trying to do mentoring, training, and development that is appropriate for each person.

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