

**2024 ESG Meeting Held November 25, 2024**

**Summary of Q&A**

**Respondents:**

Masao Asami      Director, President, Representative Executive Officer, CEO & COO

Toru Nakayama    Executive Officer, CRO

Hiroshi Oeda      Independent Director, Chairman of the Board of Directors

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**Questioner 1:** My first question concerns the sustainability compensation program and the figures for the new carbon neutrality initiatives you introduced. Today, you explained that new GHG contribution targets have been set, as shown on pages 10 through 12 and around page 13 of the materials. In making this commitment, I believe it is necessary to tie it to some output outcome or evaluation.

From this perspective, can you tell us about your current thoughts on how the sustainability compensation program and the goals you have set will be linked?

**Asami:** We have just set these greenhouse gas avoided emissions and Scope 3 reduction targets. Setting compensation connected with these targets is something we will consider in the future in consultation with the Compensation Committee. On the other hand, the results of the Global Engagement Survey are reflected in the compensation of our executive officers, as previously announced.

**Questioner 1:** I have another question regarding the risk management presentation. My question concerns page 25 or 23 in the materials. I want to ask about your risk management system specifically regarding cybersecurity.

I believe that evaluating many risk items is important for proactive risk management. On the other hand, I think there are some areas where the judgment of items requires expertise, and one example is cybersecurity. From this perspective, I believe that it would be more appropriate for cybersecurity to

be judged to some extent by a person who is essentially a CISO. If you don't mind, could you tell us about such a qualified person and what kind of initiatives and coordination are possible within the risk management system described on page 23?

**Nakayama:** I believe cybersecurity has two features that differ slightly from other risks. One is that it is highly technical and, therefore, requires highly specialized personnel. The second is that unless all group companies around the world take the same level of cybersecurity measures, a breach at one location could damage the entire group.

While we do not currently have a CISO, we do have a Chief Information Officer who serves in this role. The CIO is at the core and cooperates with our group companies worldwide. In particular, we have three security centers in the US, Europe, and Asia, and we are ready to take countermeasures around the clock.

Specifically, with the CIO at the core, we are currently evaluating the level of technology in all of our group companies worldwide, using ISO's standard, ISO 27001, as our system theory and CIS Controls, a technical theory published by NIST in the US, as our technical theory.

The CIO is taking the lead in promoting these global standards in the systems of all group companies worldwide, and we have the CIO regularly share progress status with the RMP.

**Questioner 2:** I would like to ask about risk management. I don't know if this is directly related, but since 2020, there have been no downward revisions in your company's forecasts. I have the impression that your performance has become more resilient in various ways, such as when one business is not doing so well, another business is doing well and compensating for that, and so on, despite multiple issues such as COVID-19, supply chain disruptions, inflation, and concerns about China.

I don't know if risk analysis and management contribute in some way, whether directly or not, but is it safe to say that they do? Since your medium-term management plan calls for growth, can we say that your company is now firmly

on the offensive in some areas and on the defensive in others through risk management? May I ask for your perspective on this?

**Asami:** Since 2020, we have been able to achieve the goals of our medium-term management plan, which we could not reach before, and since then, we have continued to achieve our performance goals. As you have said, we have five businesses now, and each is in good or bad shape because of the market, as demand goes up or down, depending on each market. In this case, the ups and downs and tides of each other worked to cancel each other out, leading to a positive direction in which our growth in our business performance and profitability increased.

To put it this way, it just so happened that the tide was turning in this favorable direction. At the same time, we have been continuously improving profitability to strengthen our business foundations, which began with E-Plan 2010. The results are now reflected in the numbers, and we can achieve operating profits exceeding those of the previous year.

I believe that the diversity of the markets we serve and our continued efforts to improve profitability, with a view to growth potential, has led to the results we see today.

**Questioner 2:** In terms of responding to the market, is it safe to say that risk management, as mentioned earlier, is contributing to that?

**Asami:** Without risk management, we would be worried and wouldn't be able to continue our business. In that sense, although having diverse businesses is not one of our goals in and of itself, a result of having that is that we get to continuously produce good results as a group because even if the demand for one side is low, the demand for the other side is good.

However, fundamentally speaking, that is not something we are actively aiming for but an outcome of the current situation.

**Questioner 3:** For my first question, I want to ask you to tell us about human rights due diligence. This question may not have a clear answer, but page six of the materials says that you conducted a survey for suppliers and confirmed there were generally no problems and that some engagement was also happening.

As for my question, one of the disadvantages of surveys is their arbitrariness, and I wonder what you think the risks are in that regard. On the other hand, I also think there are trade-offs in the confirmation method. While surveys are relatively low-cost, if you intervene more directly in the engagement and the survey becomes rigorous, the cost increases and other drawbacks emerge. I want to ask you to share with us about the tug-of-war in this area and what triggers your company to make a site visit when you are not satisfied with the survey.

**Asami:** The point you mentioned is indeed something that we also find challenging. If we think of it on a global scale, we have 1,300 suppliers; if we go even more granular, there are many more than that.

On the other hand, we must be careful about various things, such as conflict minerals and child labor, and ensure they don't happen. I believe we started sending surveys to our suppliers about five years ago.

The first thing that happened was we didn't get any responses, so we had to explain to our suppliers why these surveys are essential. I explained the importance of CSR in detail in a video and had everyone watch it to deepen their understanding. We then had our affiliated companies in Japan and worldwide explain the matter to their suppliers so they would understand and respond accordingly. Then, we would confirm if they were doing things properly.

The response rate has increased considerably, and the situation is generally in a good place. This is a very difficult task, as EBARA's and the Group's businesses, in particular, are supported by both large suppliers and small companies that are really like town factories. In this context, I hope you will understand that we are starting from the point of first gaining the understanding and recognition of the importance of this and that the results are gradually becoming visible now.

Of course, it takes a lot of manpower to do this, but we know it must be done. I am taking the lead in this, and together with our global procurement and SCM

strategy department, we are working on this globally, with the people in those departments playing a central role.

**Questioner 3:** For my second question, your company's ESG-related materials are constructive and informative, so, if possible, I wanted to ask a question from a slightly different perspective to Mr. Oeda.

I would like to ask how you are currently looking at the Environmental Solutions Segment. I believe this type of discussion has been had in the past. I understand that you often talk about whether the businesses have synergies in profitability and earning capability.

I believe we can see changes happening in the business environment and feel that whether your company is really the best owner is a topic that should be discussed. Do the independent directors have any thoughts on this situation and the changes in the industry?

**Oeda:** I would like to share my thoughts. What you just said about the environmental business is quite true. First, the domestic market is already flat, with little to no potential for growth. On a global scale, in the case of EBARA, we are mainly domestic, so we can expand by developing our business overseas. However, the hurdles here are not that low, and it is not easy to start full-scale overseas expansion.

Then again, we do not have the top market share. Although we are among the top companies, we are not in the position of leading Japan's environmental business as the top manufacturer, as our size is in the third, fourth, or even fifth spot.

Earning capability and profitability have stabilized to a certain degree. However, if you ask me whether they are sufficient, the reality is that there is still room for improvement. Naturally, as a group, we will always consider how to optimize our portfolio and venture into new businesses. In addition, if we decide that it is not optimal for us to continue with an existing business, we will naturally consider selling it or merging it with another company.

Before that, the environmental business itself has a certain value in that it contributes to the environment, as EBARA is known for its environmental

friendliness. So, we will comprehensively judge these factors and make the necessary decisions as we optimize and review our business portfolio.

There is also the conglomerate discount and its positive side, but we have not reached a situation where this would be a drag, so I think it is fine to explore various options and possibilities while continuing to do business.

**Asami:** This isn't directly related to the question, but the components business within the Precision & Electronics Company first released its dry vacuum pump in the 1980s. When the pump was launched, there was an issue where gases used in semiconductor manufacturing processes were discharged untreated because the pump didn't use oil. This meant that a method was needed to handle those gases.

Technology from our environmental business proved effective at the time. Since releasing combustion gases from waste treatment facilities directly into the atmosphere is not permissible, we had already developed technology to treat those gases before discharge. This technology was then applied to handling gases generated during semiconductor manufacturing.

Our company developed a package combining the dry vacuum pump with a gas treatment system called the "Dry Revolution." This breakthrough wasn't achieved by the dry vacuum pump alone but by leveraging gas treatment technology from our environmental business.

The breakthrough can be seen as a child born of the pump business (from our Fluid Machinery & Systems operations) as its "father" and the Environmental Solutions business as its "mother." We believe this innovation—the package of the dry vacuum pump and gas treatment system—significantly contributed to the advancement of semiconductor manufacturing processes.

Engaging in these various technologies and businesses sometimes offers opportunities to create new business ventures. Because we are involved in this large range of activities, we created EBARA's *Strategic Table of Technological Capabilities*. This table visualizes our technologies, making them accessible to internal and external audiences. When faced with a challenge or a problem to solve, it helps identify which technologies can be combined and where we should

dig deeper to arrive at better solutions. This approach offers significant benefits in problem-solving.

It is a different perspective on the question, not entirely related to revising our portfolio or considering the future of the business itself. Still, I believe that EBARA's strength lies in having different businesses with different technologies that face different markets.

**Questioner 4:** I have two main questions. First, I would like to know your company's view on carbon pricing, or GX-ETS in the current world, and your company's view on the efforts in Japan to achieve decarbonization.

Your TCFD disclosures are very detailed and thoughtful, detailing what impacts are likely to be generated for each business and the path that will be taken, and are very informative.

Do you have any thoughts on how carbon pricing will impact your company as a whole in light of its introduction and how it will be managed?

**Asami:** Concerning carbon pricing itself, when you think about why we do carbon pricing, it's because it would be hard to progress toward global carbon neutrality or net zero without some driver or system, so they are imposing taxes or carbon tax, set trading goals, and ask those who don't meet those goals to pay. It is my understanding that they are trying to introduce this system to make concrete progress in decarbonization, or rather, to make everyone willing to do so or to force everyone into a situation where they feel they have to do it.

Of course, if the 55% reduction by 2030 for Scope 1 and 2 mentioned earlier is not met, we will have to buy emission credits, which will impact our business. In addition, to achieve net-zero emissions, we will have to install solar panels and other equipment and make capital investments. Of course, this will impact our business performance, but we think it is important to have the will to do so.

In our case, we have set JPY10,000 per ton of carbon dioxide as our internal carbon pricing, and we are willing to make any capital investment that will help us reach that amount.

We have explained various things, but I believe that we will need to have all kinds of discussions from now on, including with the Japanese government, about what kind of effective system can be put into place and how we can operate a system that will actually reduce carbon dioxide emissions. Our company intends to work hard on this.

**Questioner 4:** If I may ask a little more, the EU is, of course, making great strides in its emissions trading system efforts, but from a global perspective, the US is really where funds are going to start moving in the future, so the dynamics are completely different.

I understand that Japan is important for your company regarding resource allocation for future business, but I would like to know how you would focus on your overseas businesses. How do you see this developing into a new dynamic different from the past?

**Asami:** Of course, the EU is quite advanced, and I think it's becoming harder to see what shape the US will take. The EU takes reducing carbon seriously to create a sustainable society. However, I understand that for those who are not doing that, they are trying to have them pay extra duties and tariffs on items they bring into the EU. Companies must recognize that if they don't comply with the EU, they will be unable to sell or buy goods there.

Although this differs from country to country and region to region, I believe that the basic question is whether the Company is firmly committed to reducing carbon dioxide emissions and whether it is showing this commitment in numerical terms.

**Questioner 4:** In that sense, I believe various budgets are beginning to be allocated to hydrogen and other projects in the US. Can we expect that these will present opportunities for your company?

**Asami:** Yes, that's right. In the case of Ebara, we are involved in both liquid hydrogen and the pressurized transport of hydrogen gas, so we can contribute to things like liquefying hydrogen produced in various locations and bringing it to Japan or transporting it from where it is produced to the EU, for example.

Liquid hydrogen will be transported on ships, at loading and unloading terminals, and at receiving terminals, where it will then be stored in tanks and discharged.



Liquid hydrogen pumps will also be used in places where hydrogen is used to generate power. On the other hand, we have also developed a compressor for hydrogen, which we are now manufacturing, for places where we want to pump gas, and I think our chances to contribute with such a compressor will expand.

**Questioner 4:** My second question will be quick. I would like to ask you this question because your company is really serious in its ESG efforts and is a front-runner. This may not be easy to answer, but I have a question regarding employee pay. Director compensation is well managed by the Board of Directors, and I am not concerned about that.

However, I think there is a discussion that Japanese companies, in general, may need to rethink the level of compensation for their employees in the future. Under such circumstances, it is difficult to grasp the situation in terms of management indicators.

For example, ideally, how should you manage the labor share of added value, or what number would be good, given the labor productivity seen in the engagement score? Has your company already completed a formula to a certain extent for the level of pay for your employees, and has it reached a level where it can be adjusted in accordance with your business performance? More fundamentally, is there a sense that the personnel compensation system needs to be changed at the employee level, including considering overseas factors? Please comment on your view on this.

**Asami:** It's the latter. We need human resources to accomplish our targets and achieve our vision, in addition to ESG-related issues such as sustainability, the environment, and engagement, and we need to attract people who want to do these things into EBARA. Of course, we cannot attract new employees unless they share our vision of E-Vision and feel that the Company is a place where they can receive the desired treatment and recognition. Plus, even if they join our company, they might quit because it is not what they expected.

Therefore, we have to do that for each target-facing market, and to some extent, we are doing so. However, there are still some points where we are lacking in terms of standardizing on a global scale. I hope you understand that this is an issue that we will have to work on.

**Questioner 5:** Regarding governance, I would like to first confirm whether I understand correctly that the term of office of the president and CEO of your company is six years.

Also, could you comment on the progress of the president succession plan you disclosed on your website? First of all, the specifics of the discussions, and if you don't mind, President Asami, from your point of view, what you would like to see in the next president?

**Asami:** Thank you very much. Regarding the first question on the president's succession, I would like our chairperson, Mr. Oeda, to answer since he is also a member of the Nomination Committee.

**Oeda:** I will answer the question.

The term of office of the president and representative executive officer is fixed at a maximum of six years. Regarding the succession of presidents, after the current President Asami became president, the Nomination Committee created a six-year president succession plan to select the next president. We conducted training for the candidates and will select from those candidates, and we are now at the final stage. I hope you understand that the president succession plan is progressing smoothly.

**Asami:** For the second question. As president, I have no say in the president's succession, as the basis of our company's Nomination Committee is that I am not a member of the Nomination Committee. In other companies, the current president is on the Nomination Committee, but in our company's case, the current president is not on the Nomination Committee.

Now, regarding what the president does, well, he will have those currently in the Company or on the executive side who he thinks have the qualities or the potential to be the next president undergo necessary training and be put in challenging assignments to gain the experience necessary for the role of president.

Furthermore, I believe it is the job of the current president to select and develop such a person, ensure that they are responsible for explanations at the Independent Directors' meetings, and have them make presentations to executive officers at management meetings where the chairman is also present, at meetings where the chairman of the audit committee is also present, and so on.

For the past six years, I have been doing what I think would be best for our company, but I believe there is still room for growth, both in terms of improving profitability and creating new businesses.

Therefore, I am sure that the next president will analyze these points carefully from the new president's point of view, and I hope that he or she will do what he or she wants to do.

**Oeda:** Just a word. I am a member of the Nomination Committee, so I want to say what kind of president we will choose.

The Nomination Committee does not place much emphasis on past performance, like how much they raised sales or other such factors when selecting the president. Instead, we select the president based on our basic policy that the new president is, in essence, suitable for the position of EBARA's president and that judgment is made not based on past performance but rather on his or her own qualities and abilities. I would like to add just that.

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