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Annual Securities Report

(Report filed pursuant to Article 24, Paragraph 1 of the Financial Instruments and Exchange Act)

158th fiscal year
(From January 1, 2022 to December 31, 2022)

EBARA CORPORATION

(E01542)

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Independent Auditor's Report

[Cover]

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Part 1. Company Information

I. Overview of Company

1. Key Performance Indicators

Consolidated Performance Indicators

Fiscal year		International Financial Reporting Standards			
		As of the transition date	156th	157th	158th
Fiscal year-end		January 1, 2020	December 2020	December 2021	December 2022
Revenue	(Millions of yen)	–	522,478	603,213	680,870
Profit before tax	(Millions of yen)	–	35,756	60,302	69,481
Profit attributable to owners of parent	(Millions of yen)	–	24,236	43,616	50,488
Comprehensive income attributable to owners of parent	(Millions of yen)	–	23,804	52,529	66,019
Total equity attributable to owners of parent	(Millions of yen)	271,277	289,564	312,310	359,966
Total assets	(Millions of yen)	615,465	644,771	719,736	828,049
Equity attributable to owners of parent per share	(Yen)	2,851.83	3,036.19	3,395.50	3,910.07
Basic earnings per share	(Yen)	–	254.36	463.44	548.61
Diluted earnings per share	(Yen)	–	253.34	462.09	547.34
Ratio of equity attributable to owners of parent	(%)	44.1	44.9	43.4	43.5
Return of equity attributable to owners of parent	(%)	–	8.6	14.5	15.0
Price-earnings ratio	(Times)	–	13.2	13.8	8.6
Cash flows from operating activities	(Millions of yen)	–	68,848	72,858	37,070
Cash flows from investing activities	(Millions of yen)	–	(29,200)	(31,361)	(38,324)
Cash flows from financing activities	(Millions of yen)	–	(14,389)	(29,489)	(23,749)
Cash and cash equivalents at end of period	(Millions of yen)	95,256	120,544	136,488	116,137
Number of employees	(Persons)	17,303	17,480	18,372	19,095

Notes: 1. The Company has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (hereinafter “IFRS”) since the 157th fiscal year.
2. The number of employees shown is the number of workers.

Fiscal year		Japanese GAAP			
		154th	155th	156th	157th
Fiscal year-end		December 2018	December 2019	December 2020	December 2021
Net sales	(Millions of yen)	509,175	522,424	523,727	603,213
Ordinary income	(Millions of yen)	31,281	35,571	36,859	58,318
Profit attributable to owners of parent	(Millions of yen)	18,262	23,349	24,473	42,576
Comprehensive income	(Millions of yen)	12,493	25,043	24,113	53,882
Net assets	(Millions of yen)	286,778	291,827	304,470	326,119
Total assets	(Millions of yen)	591,582	595,239	621,578	700,985
Net assets per share	(Yen)	2,795.72	2,981.91	3,106.10	3,438.27
Net income per share	(Yen)	179.94	241.79	256.85	452.39
Diluted net income per share	(Yen)	178.99	240.57	255.82	451.07
Equity ratio	(%)	47.3	47.7	47.7	45.1
Return on equity	(%)	6.6	8.3	8.4	13.9
Price-earnings ratio	(Times)	13.7	13.8	13.1	14.1
Cash flows from operating activities	(Millions of yen)	34,610	26,720	64,234	68,549
Cash flows from investing activities	(Millions of yen)	(15,927)	(24,077)	(29,071)	(31,754)
Cash flows from financing activities	(Millions of yen)	(46,412)	(20,188)	(9,628)	(25,179)
Cash and cash equivalents at end of period	(Millions of yen)	110,556	93,351	120,544	136,488
Number of employees	(Persons)	16,556	17,080	17,480	18,372

Notes:
1. Figures for the 157th fiscal year have not undergone audits pursuant to the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.
2. The number of employees shown is the number of workers.
3. The Company has adopted “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018) and “Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018) from the beginning of the 156th fiscal year.
4. The Company has adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No.28, February 16, 2018) and other standards from the beginning of the 155th fiscal year. Therefore, the figures for the 154th fiscal year are those calculated after retrospectively applying the accounting standard and other standards.

2. History

Month and year	History
November 1912	Inokuty Type Machinery Office was founded. Issey Hatakeyama was appointed general manager under the supervision of Dr. Ariya Inokuty, a professor of Tokyo Imperial University.
May 1920	EBARA CORPORATION was established. A plant was constructed in Shinagawa-cho, Ebara-gun, Tokyo to take over the business of the Inokuty Type Machinery Office and manufacture centrifugal pumps.
April 1938	A new plant was built in Haneda, Kamata-ku, Tokyo. The Head Office and manufacturing operations were relocated from Shinagawa to the new facility in Haneda.
December 1941	A new plant was built in Kawasaki.
April 1945	Production was transferred from the Haneda Plant to the Kawasaki Plant due to war damage.
January 1955	The Haneda Plant was reopened to spearhead the Company's manufacturing operations.
January 1956	Ebara-Infilco Co., Ltd. was set up to manufacture and sell water treatment equipment.
April 1964	EBARA's first post-War overseas sales office was opened in Thailand.
June 1964	Ebara Service Co., Ltd., was established to provide after-sales service for EBARA's products.
May 1965	The Fujisawa Plant was opened as the first facility in Japan to mass-produce standard pumps, and it took over the production of chillers from the Haneda Plant.
January 1975	EBARA's first post-War overseas production facility, Ebara Industrias Mecanicas e Comercio Ltda.(currently EBARA BOMBAS AMÉRICA DO SUL LTDA.) was established in Brazil.
November 1975	The Sodegaura Plant was opened to manufacture mainly compressors and turbines.
December 1979	PT. Ebara Indonesia was established in Indonesia to manufacture standard pumps in Southeast Asia.
January 1981	Ebara International Corporation (currently EBARA PUMPS AMERICAS CORPORATION) was established in the United States as North American base for the pumps business.
July 1987	A precision machining facility was opened at the Fujisawa Plant dedicated to the production of vacuum equipment for the semiconductor industry.
January 1989	Ebara Italia S.p.A. (currently Ebara Pumps Europe S.p.A.) was established to manufacture stainless steel standard pumps.
August 1992	EBARA QINGDAO CO., LTD. was founded in China to serve as a base for boiler production.
October 1994	Ebara-Infilco Co., Ltd. was merged into the Company.
April 2000	The sales division for general fluid machinery & systems was integrated into Ebara Service Co., Ltd., which changed its name to Ebara Techno-serve Co., Ltd. to combine sales and maintenance services.
April 2000	Elliott Company (in the U.S.), a leading company in the compressors and turbines business, became a wholly-owned subsidiary.
June 2001	Ebara Kyushu Co., Ltd., established in Kumamoto Prefecture for producing CMP and other equipment, went into full operation.
April 2002	The compressors and turbines business was spin off into a separate company, Elliott Ebara Turbomachinery Corporation in Chiba Prefecture.
September 2002	The chillers business was spin off into a separate company, Ebara Refrigeration Equipment & Systems Co., Ltd.
May 2003	Ebara Great Pumps Co., Ltd. was established to manufacture and sell API pumps in China.
April 2005	An in-house company system was introduced with a corporate structure comprising a Corporate Sector for headquarters functions and three companies: Fluid Machinery & Systems, Environmental Engineering, and Precision Machinery.
August 2005	Ebara Boshan Pumps Co., Ltd. (currently EBARA MACHINERY ZIBO CO., LTD.) was established in China to manufacture and sell large-scale, high-pressure pumps in China.
May 2006	Ebara Machinery (China) Co., Ltd. was formed as the manufacturing, sales, and service center for standard pumps in China.
April 2009	EBARA integrated its water treatment plant business into Ebara Engineering Service Co., Ltd. (currently Swing Corporation).
October 2009	EBARA integrated its waste treatment plant business into EBARA Environmental Plant Co., Ltd.
January 2010	The Futtsu Plant was newly established in Chiba Prefecture to absorb the functions of the Haneda Plant.
March 2010	EBARA, Mitsubishi Corporation, and JGC Corporation started a joint venture as a general water business company, Ebara Engineering Service Co., Ltd.
October 2010	Ebara Kyushu Co., Ltd. was merged into the Company.
April 2012	In a realignment of the pumps business, Ebara Techno-serve Co., Ltd., Ebara Yoshikura Hydro-Tech Co., Ltd., and Ebara Environmental Technologies Hokkaido Co., Ltd. were merged into the Company.
March 2014	Ebara Pumps Middle East FZE was established in the United Arab Emirates to serve as a sales and service base for pumps in the Middle East.
June 2015	EBARA transitioned to a Company with Three Board Committees.
August 2015	EBARA acquired PT. Turbindo Chikara Surya (currently PT. Ebara Turbomachinery Services Indonesia), an Indonesian company that provides maintenance services for rotating machinery.

Month and year	History
December 2015	EBARA acquired a Brazilian pumps manufacturer, Thebe Bombas Hidráulicas S.A., which was dissolved through an absorption-type merger with EBARA BOMBAS AMÉRICA DO SUL LTDA. as the surviving company.
November 2016	The construction of a semiconductor manufacturing plant and a maintenance service factory for dry vacuum pumps in the Kumamoto District was completed.
May 2020	Ebara Pumps Mexico, S.A. de C.V. was established in Mexico to serve as a sales and service base for pumps in North and Central America.
April 2021	EBARA acquired Cigli Su Teknolojileri A.S. the parent company of Vansan Makina Sanayi ve Ticaret A.S., a Turkish pump manufacturer, and Vansan Makina Montaj ve Pazarlama A.S.
September 2022	EBARA acquired Hayward Gordon Holdings, L.P., which owns six industrial pump and mixer manufacturers in Canada and the United States.

3. Description of Business

The EBARA Group (the "Group"), consisting of EBARA CORPORATION (the "Company"), 112 subsidiaries (all of which are consolidated subsidiaries), three associates and one jointly controlled entity, is primarily engaged in manufacturing, sales, construction, maintenance, and services in the fields of Fluid Machinery & Systems, Environmental Plants, Precision Machinery, and others.

The main business lines of the Company, the functions and responsibilities of the Company, its major consolidated subsidiaries, associates and jointly controlled entity are as follows. These business segments are the same as those listed in "V. Financial Information, 1. Consolidated Financial Statements, (1) Notes to the Consolidated Financial Statements, 5. Business segments."

Business segment	Main business	Functions and division of responsibilities	The Company, its major consolidated subsidiaries, associates and jointly controlled entity
Fluid Machinery & Systems	Pumps, compressors, turbines, freezer chillers, blowers, fans and others	Manufacture and sales	The Company Elliott Ebara Turbomachinery Corporation EBARA REFRIGERATION EQUIPMENT & SYSTEMS CO., LTD EBARA DENSAN LTD. EBARA FAN & BLOWER CO., LTD. EBARA BOMBAS AMÉRICA DO SUL LTDA. Ebara Machinery (China) Co., Ltd. EBARA MACHINERY ZIBO CO., LTD. EBARA GREAT PUMPS CO., LTD. (Note 1) Ebara Pumps Europe S.p.A. Elliott Company EBARA REFRIGERATION EQUIPMENT & SYSTEMS (CHINA) CO., LTD. Vansan Makina Sanayi ve Ticaret A.S. Hayward Gordon Holdings, L.P.
		Engineering, construction, operation and maintenance	The Company
		Sales and maintenance	Ebara Engineering Singapore Pte. Ltd. Elliott Ebara Singapore Pte. Ltd.
Environmental Plants	Municipal waste processing plants, industrial waste incineration plants, water treatments plants and others	Engineering and construction	Ebara Environmental Plant Co., Ltd. EBARA QINGDAO CO., LTD. Swing Corporation (Note 2)
		Operation and maintenance	Ebara Environmental Plant Co., Ltd. Swing Corporation (Note 2)
		Manufacture and sale of chemicals	Swing Corporation (Note 2)
Precision Machinery	Dry vacuum pumps, CMP equipment, plating equipment, exhaust-gas treatment equipment and others	Manufacture and sales	The Company
		Sales and maintenance	EBARA FIELD TECH. CORPORATION Ebara Engineering Singapore Pte. Ltd. Ebara Technologies Inc. Shanghai Ebara Precision Machinery Co., Ltd. Ebara Precision Machinery Korea Inc. Ebara Precision Machinery Taiwan Incorporated Ebara Precision Machinery Europe GmbH
Others	–	Business support services, etc.	EBARA AGENCY CO., LTD. (Note 3)

Notes:
1. The Chinese character for pumps is written as water under stone.
2. The company is a jointly controlled entity accounted for using the equity method.
3. EBARA AGENCY CO., LTD. was dissolved as of December 2022 and has transitioned to liquidation procedures.

4. Subsidiaries and Associates

Name	Address	Share capital or investments in capital (Millions of yen)	Business description	Percentage of the Company's voting rights (%)	Description of relationship
(Consolidated subsidiaries)					
Elliott Ebara Turbomachinery Corporation	Sodegaura-shi, Chiba	450	Fluid Machinery & Systems	100.0 (100.0)	・One officer concurrently serves as an officer of the Company ・Buys pumps from the Company ・Sells compressors, turbines, etc. to the Company ・Rents factories and buildings of the Company ・Lends funds to the Company
EBARA REFRIGERATION EQUIPMENT & SYSTEMS CO., LTD	Ota-ku, Tokyo	450	Fluid Machinery & Systems	100.0	・One officer concurrently serves as an officer of the Company ・Buys pumps from the Company ・Sells chillers, cooling towers and related equipment to the Company ・Rents factories and buildings of the Company ・Borrows funds from the Company
EBARA DENSAN LTD.	Ota-ku, Tokyo	450	Fluid Machinery & Systems	100.0	・One officer concurrently serves as an officer of the Company ・Sells electric machinery and apparatus to the Company ・Rents buildings of the Company ・Borrows funds from the Company
EBARA FAN & BLOWER CO., LTD.	Suzuka-shi, Mie	445	Fluid Machinery & Systems	100.0	・Sells blowers to the Company ・Rents buildings of the Company ・Borrows funds from the Company
Ebara Environmental Plant Co., Ltd.	Ota-ku, Tokyo	5,812	Environmental Plants	100.0	・One officer concurrently serves as an officer of the Company ・Buys pumps from the Company ・Buys pump parts and components from the Company ・The Company procures part of the electricity used at its factories ・Rents buildings of the Company ・Lends funds to the Company
EBARA FIELD TECH. CORPORATION	Ota-ku, Tokyo	475	Precision Machinery	100.0	・Two officers concurrently serve as an officer of the Company ・Sells component devices and semiconductor manufacturing equipment of the Company and offers after-sales service for such products ・Rents factories and buildings of the Company ・Lends funds to the Company
EBARA AGENCY CO., LTD. (Note 3)	Ota-ku, Tokyo	80	Others	100.0	・The Company contracts out business support services, etc. ・Rents buildings of the Company ・Lends land and buildings to the Company ・Borrows funds from the Company
Ebara Shonan Sports Center Inc.	Ota-ku, Tokyo	80	Others	96.3	・Operates a tennis club, to which the Company belongs as a corporate member ・Rents facilities of the Company ・Borrows funds from the Company
Shonan Sun Plaza Inc.	Fujisawa-shi, Kanagawa	10	Others	100.0 (100.0)	
EBARA BOMBAS AMÉRICA DO SUL LTDA.	Sao Paulo, Brazil	Thousands of Brazilian real 99,106	Fluid Machinery & Systems	100.0 (0.01)	・Borrows funds from the Company

Name	Address	Share capital or investments in capital (Millions of yen)	Business description	Percentage of the Company's voting rights (%)	Description of relationship
EBARA MACHINERY ZIBO CO., LTD.	Shandong, China	Thousands of U.S. dollars 41,000	Fluid Machinery & Systems	100.0 (100.0)	・One officer concurrently serves as an officer of the Company ・Buys pumps from the Company ・Sells pump parts and components to the Company ・Borrows funds from the Company
Ebara Machinery (China) Co., Ltd.	Beijing, China	Thousands of U.S. dollars 61,938	Fluid Machinery & Systems	100.0	・One officer concurrently serves as an officer of the Company ・Buys pumps from the Company ・Sells pump parts and components to the Company ・Borrows funds from the Company
EBARA GREAT PUMPS CO., LTD. (The Chinese character for pumps is written as water under stone.)	Zhejiang, China	Thousands of U.S. dollars 11,000	Fluid Machinery & Systems	51.0	・One officer concurrently serves as an officer of the Company ・Buys pumps from the Company ・Sells pump parts and components to the Company
Ebara Engineering Singapore Pte. Ltd.	Singapore	Thousands of Singapore dollars 6,625	Fluid Machinery & Systems, Precision Machinery	100.0	・Buys pumps from the Company ・Sells component devices and semiconductor manufacturing equipment of the Company and offers after-sales service for such products ・Borrows funds from the Company
Ebara Pumps Europe S.p.A.	Trento, Italy	Thousands of Euro 22,400	Fluid Machinery & Systems	100.0	・Sells pumps to the Company
Elliott Company (Note 4)	Pennsylvania, U.S.A.	Thousands of U.S. dollars 1	Fluid Machinery & Systems	100.0 (100.0)	・Three officers concurrently serve as an officer of the Company ・Sells compressors and turbines to the Company ・Borrows funds from the Company ・Has its debts guaranteed by the Company
Elliott Ebara Singapore Pte. Ltd.	Singapore	Thousands of Singapore dollars 340	Fluid Machinery & Systems	100.0 (100.0)	
EBARA REFRIGERATION EQUIPMENT & SYSTEMS (CHINA) CO., LTD.	Shandong, China	1,888	Fluid Machinery & Systems	100.0 (40.0)	・One officer concurrently serves as an officer of the Company
Vansan Makina Sanayi ve Ticaret A.S.	Izmir, Turkey	Thousands of Turkish lira 5,350	Fluid Machinery & Systems	100.0 (100.0)	・One officer concurrently serves as an officer of the Company ・Borrows funds from the Company
Hayward Gordon Holdings, L.P.	Delaware, U.S.A.	Thousands of Canadian dollars 22,062	Fluid Machinery & Systems	100.0	
EBARA QINGDAO CO., LTD.	Shandong, China	3,150	Environmental Plants	100.0 (100.0)	
Ebara Technologies Inc.	California, U.S.A.	Thousands of U.S. dollars 44,560	Precision Machinery	100.0 (100.0)	・Sells component devices and semiconductor manufacturing equipment of the Company, offers after-sales service for such products and manufactures components
Shanghai Ebara Precision Machinery Co., Ltd.	Shanghai, China	495	Precision Machinery	100.0	・Sells component devices and semiconductor manufacturing equipment of the Company and offers after-sales service for such products

Name	Address	Share capital or investments in capital (Millions of yen)	Business description	Percentage of the Company's voting rights (%)	Description of relationship
Ebara Precision Machinery Korea Inc.	Pyeongtaek, South Korea	Millions of Won 5,410	Precision Machinery	100.0	・One officer concurrently serves as an officer of the Company ・Sells component devices and semiconductor manufacturing equipment of the Company, offers after-sales service for such products and manufactures components
Ebara Precision Machinery Taiwan Incorporated	Taipei, Taiwan	Thousands of TWD 330,000	Precision Machinery	100.0	・One officer concurrently serves as an officer of the Company ・Sells component devices and semiconductor manufacturing equipment of the Company, offers after-sales service for such products and manufactures components
Ebara Precision Machinery Europe GmbH	Hessen, Germany	Thousands of Euro 11,145	Precision Machinery	100.0	・Sells component devices and semiconductor manufacturing equipment of the Company and offers after-sales service for such products
86 other companies					

Name	Address	Share capital or investments in capital (Millions of yen)	Business description	Percentage of the Company's voting rights (%)	Description of relationship
(A jointly controlled entity accounted for using the equity method)					
Swing Corporation	Minato-ku, Tokyo	5,500	Environmental Plants	33.3	・One officer concurrently serves as an officer of the Company ・Buys pumps from the Company ・Buys pump parts and components from the Company ・Sells chemicals to the Company ・Rents land and buildings of the Company

Notes: 1. "Business Description" shows the names of segments.

2. The figures in parentheses for the "Percentage of the Company's voting rights" are the percentages of the voting rights which the Company holds indirectly.
3. EBARA AGENCY CO., LTD. was dissolved as of December 2022 and has transitioned to liquidation procedures.
4. Elliott Company generates more than 10% of consolidated revenue (excluding inter-company revenue). The principal profit and loss information, etc. of the company prepared in accordance with IFRS is as follows:

Revenue (including inter-company revenue)	85,221 million yen
Profit before tax	7,654 million yen
Profit	4,968 million yen
Total equity	32,296 million yen
Total assets	88,127 million yen

Instead of non-consolidated figures, the main profit and loss information, etc. of Elliott Company states the consolidated figures that include the results of its subsidiaries.

5. Employees

(1) Information about the Group

As of December 31, 2022

Segment	Number of employees
Reportable segments	
Fluid Machinery & Systems	12,142
Environmental Plants	2,727
Precision Machinery	3,151
Total of reportable segments	18,020
Corporate departments and others	1,075
Total	19,095

Note: The number of employees represent the number of regular employees.

(2) Information about the Reporting Company

As of December 31, 2022

Number of employees	Average age (years old)	Average length of service (years)	Average annual salary (yen)
4,287	43.8	16.5	8,440,251

Segment	Number of employees
Reportable segments	
Fluid Machinery & Systems	2,162
Environmental Plants	12
Precision Machinery	1,225
Total of reportable segments	3,399
Corporate departments and others	888
Total	4,287

Notes: 1. The number of employees represent the number of regular employees.
2. Average annual salary includes bonuses and extra wages.

(3) Information about Labor Union

The reporting company and consolidated subsidiaries in Japan have the following labor unions. There is no other information for special attention between the Company and those labor unions.

Company name	Labor union	Number of members	Superior labor union
Ebara Corporation	Ebara Joint Labor Union	2,467	None
Elliott Ebara Turbomachinery Corporation	Ebara Joint Labor Union	203	None
EBARA FAN & BLOWER CO., LTD.	Ebara Fan & Blower Labor Union	194	None
EBARA FIELD TECH. CORPORATION	Ebara Field Tech. Labor Union	120	None

Note: In addition to the above, some employees of our overseas consolidated subsidiaries belong directly to external labor unions such as industrial unions. There is no information to note on matters between the Company and those labor unions.

II. Business Overview

1. Management Policy, Business Environment, and Issues to be Addressed

This document contains forward-looking statements, which are based on the Group's estimates and assumptions made as of the filing date of this Securities Report.

(1) Management Policy

Long-term Vision: E-Vision 2030

Since it was founded in 1912, the Group has continued to develop its business activities in accordance with its Founding Spirit of "Netsu to Makoto" (Passion and Dedication) and its corporate philosophy of "We contribute to society through high-quality technologies and services relating to water, air, and the environment." At the time of our founding, we contributed to the development of water infrastructure in Japan and responded to the demands of society with the intention of "shaping Japan through the business of helping realize the safe and reliable supply of water." During the economic reconstruction from World War II and the prosperity that followed in Japan, there was growing construction demand related to industrial infrastructure and urbanization. The Group responded to such demand with a diverse lineup of fluid machinery and system products and services matched to the various needs that arose during this period, and also offered waste incineration facilities to be used in the disposal of waste, which increased as people's lives became more sophisticated. Furthermore, we are contributing to the evolving information society by developing semiconductor manufacturing equipment and components to meet the explosive growth in demand for semiconductors that accompanies the progress of the information society. Recently, we have worked to make our products more energy efficient to meet the demands of a sustainable society, and in this way, we have been contributing to the solutions of diverse social issues through our business activities.

Looking ahead at the next 100 years of human civilization and the global environment, there are many issues to be considered. The Group sees abnormal weather and intensifying natural disasters due to climate change or especially global warming, storm surges due to rising sea levels, land erosion, and depletion of food and water resources as major issues. In addition, the technologies of the information age are expected to evolve even further, bringing drastic change to current lifestyles and the digital world as well as higher demand in semiconductors underpinning the digital society, and pushing the limits of semiconductor manufacturing technologies.

Given this uncertain operating outlook, in order for the Group to achieve further growth while solving social issues, it is essential to have a clear vision with straightforward policies and strategies for realizing that vision, in view of how society will change and what issues will arise as a result, and we have done so within our long-term vision, E-Vision 2030, created in February 2020.

Long-term Vision: E-Vision 2030

Solve social issues through businesses with a market-in perspective toward the world in 2030.

5 Material Issues (Materiality)

As we advance into the future, the EBARA Group will continue to make increasingly wide-reaching contributions to society through its business by capitalizing on the “EBARA Way” and the strengths of the technological capabilities and reliability it has cultivated thus far. We have also set five material issues (EBARA’s materiality) that the EBARA Group will address and improve toward 2030, and we will formulate and implement the process of realizing these material issues as a value creation story.

(i) Contribute to the Creation of a Sustainable Society

We will utilize our technologies to passionately support the creation of a sustainable, environmentally friendly world with ample food and water, and safe and reliable social infrastructure.

(ii) Elevate Standards of Living and Support Abundant Lifestyles for All

We will utilize our technologies to passionately support economic development that enables the world to end poverty and realize ever-evolving and abundant lifestyles.

(iii) Conduct Comprehensive Environmental Management

We will promote the reduction of CO_2 emissions from our business operations and maximize our use of renewable energy to move toward a carbon-neutral world.

(iv) Promote Working Environments That Encourage Challenge

We will promote a corporate group culture of competition and challenge, and provide diverse employees with meaningful work and comfortable working environments.

(v) Enhance Corporate Governance

We will lay out a vision for and pursue growth through offensive and defensive governance that supports high-level management capabilities.

(2) Ten Year Vision

Over the next 10 years, the Group aims to become an excellent global company by making continuous contributions through the realization of five material issues that contribute to solving social issues, including the SDGs, and by enhancing our corporate value by simultaneously improving (i) social and environmental value and (ii) economic value. We have set a target of ¥1 trillion in market capitalization as a guideline for the improvement of corporate value in 2030.

Examples of Outcome Targets

(i) Social and environmental value

・Reduce greenhouse gas emissions equivalent to approximately 100 million tons of CO2

・Deliver water to 600 million people worldwide

・Contribute to the evolution of lifestyles by taking on the challenge of the 14 angstrom (one ten-billionth of a meter) generation of cutting-edge semiconductor devices

(ii) Economic value

・Return on invested capital (ROIC) of 10.0% or more

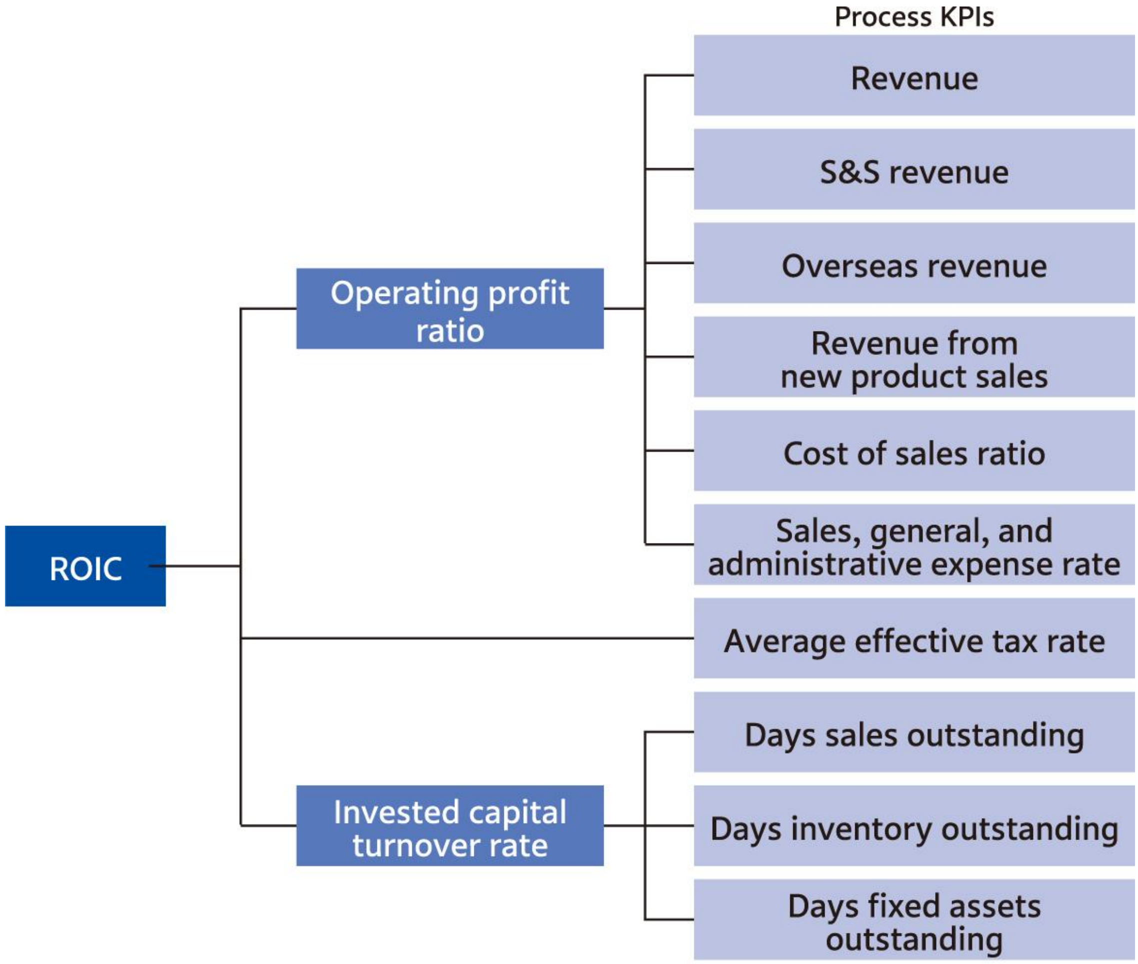
・Revenue of ¥1 trillion

Adding an ROE Target

The first three years of E-Vision 2030 have now passed, and in reviewing E-Vision 2030, we are aware that its general directions (e.g., value creation story, materiality issues) remain unchanged and that they do not require any drastic changes at this point. Meanwhile, we have decided to aim for an ROE of 15% or higher from the perspective of improving the efficiency of equity as well through the ROIC management initiatives we have been promoting.

ROIC Management

We view “ROIC management” as a useful management method that bridges the gap between maximizing corporate value, which is important to shareholders, and maximizing business value, which is important to business units. In our “ROIC management,” we set a WACC (hurdle rate) for each business unit to be managed, and develop measures to maximize the ROIC/WACC spread in each business unit. The ROIC tree is broken down into indicators that are easy to manage for each business unit, and these indicators are positioned as evaluation indicators for each person in charge, and progress is monitored monthly as process KPIs*.



* KPI: Key Performance Indicator

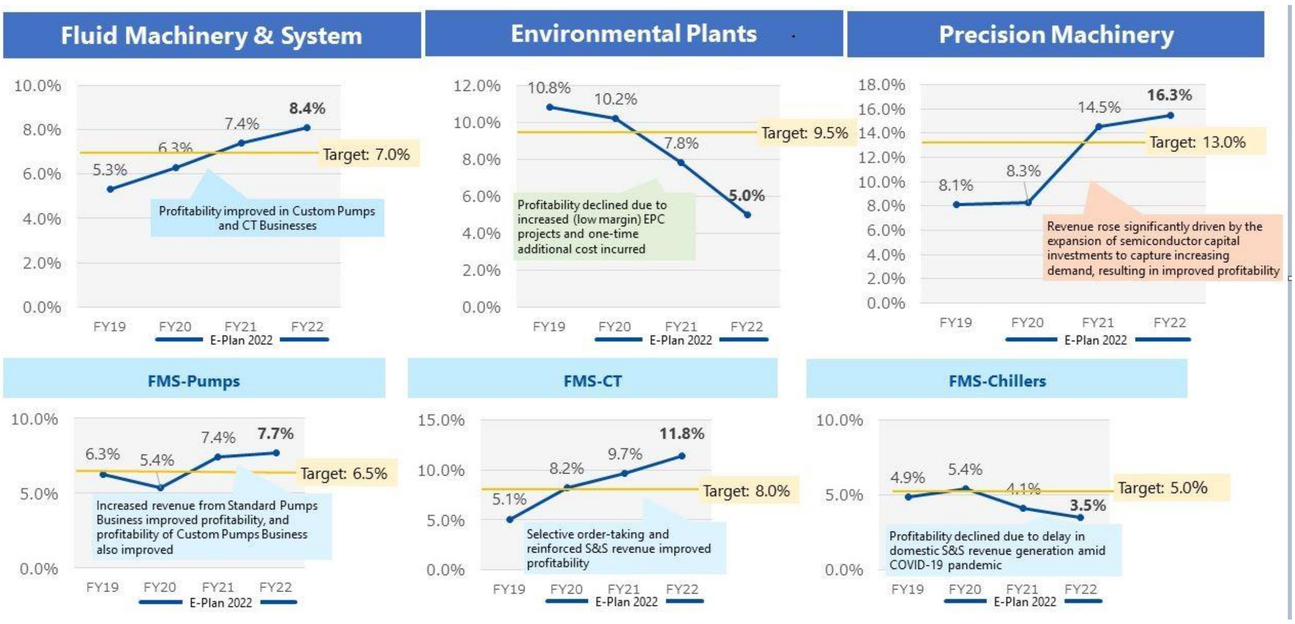
(3) Medium-term Management Strategies and Target Performance Indicators

Based on the review of E-Plan 2022, we have formulated the Medium-term Management Plan “E-Plan 2025” for three years starting from fiscal year 2023 with the aim of steadily approaching our vision set forth in E-Vision 2030, based on the strategies and issues to be addressed over the next three years and the responses to issues to be resolved that were clarified from the summary of E-Plan 2022.

Review of E-Plan 2022

In E-Plan 2022, the Group positioned the time frame (FY2020 - FY2022) as the stage to “reinforce the foundations for further growth toward the achievement of E-Vision 2030” and implemented a variety of measures under the four basic policies: (1) strive for growth, (2) improve profitability of existing businesses, (3) refine management and business infrastructure, and (4) enhance ESG-focused management. As a result, the Group has achieved goals in key indicators, including return on invested capital (ROIC) and operating profit ratio that we defined as the most important management indicators and achieved one year ahead of the schedule. We summarize that the plan has made good progress overall.

Achieved goals for the most important management indicators (ROIC and operating profit ratio) in the second year of the three year plan

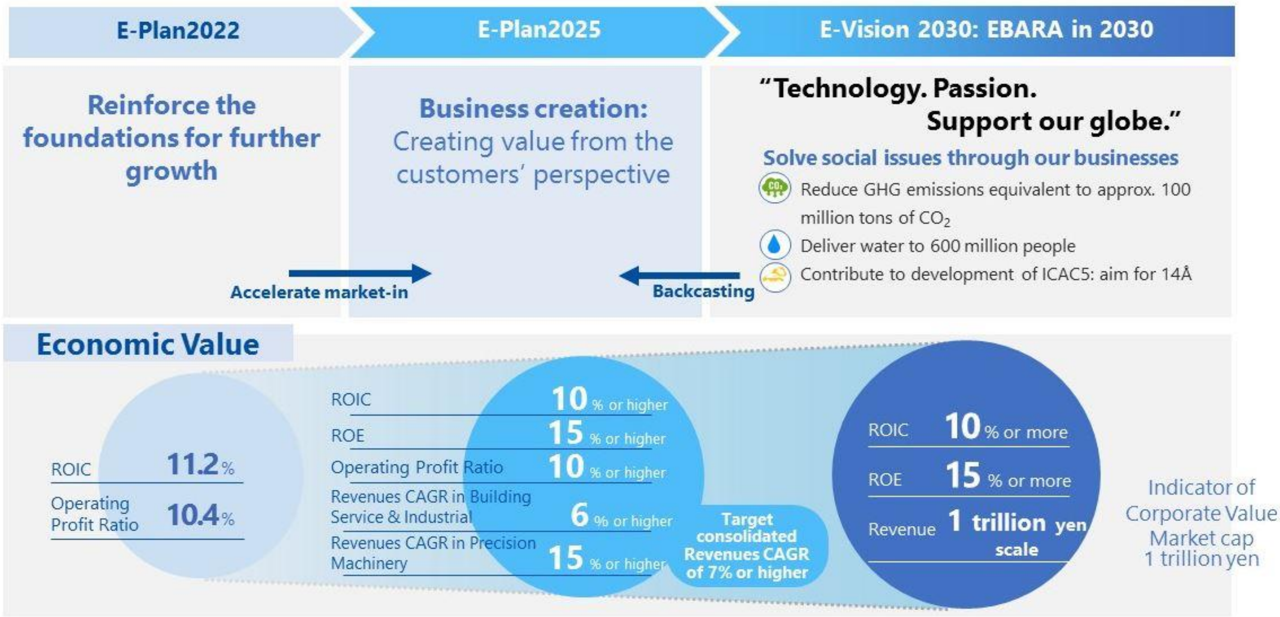


Positioning and Directions of E-Plan 2025

Based on the achievements of E-Plan 2022, in order to move on to the next stage to further strengthen our competitiveness in each business area, we have set the theme of "creating value from the customer's perspective" in E-Plan 2025. In addition, we have positioned the E-Plan 2025 period as a three-year period during which we will steadily approach the EBARA's Vision for 2030 set forth in E-Vision 2030 and ensure the realization of the vision by 2030 and thus determined the following directions.

1. Strengthen the market-in initiatives, move away from product-out approach, and instill a corporate culture of "creating new value from the customer's perspective."
2. Reorganize into a five-company system by target market with an aim to establish a system by which each business can maximize business performance in each target market.
3. Aggressively invest capital for business growth and infrastructure to further ensure the realization of the vision for 2030.
4. For efficiency and profitability indicators (ROIC and operating profit ratio), maintain the target level which was realized in 2022 and set in E-Vision 2030 (e.g., ROIC of 10%).
5. Add an ROE of 15% or higher, set in E-Vision 2030, as a new key indicator to further drive our commitment to achieving "¥1 trillion in market cap by 2030," while further sophisticating ROIC-focused management.
6. Introduce CxO system to totally optimize the Group and enhance the Group governance by function.

With the implementation of the above 1 through 6, the goal of E-Plan 2025 is to reach a position where we can more certainly foresee the path to realize the EBARA's Vision for 2030. With regard to business growth, we have set a top-line CAGR of 7% for the E-Plan 2025 period, which we will achieve mainly in the following two businesses of growth areas: Building Service & Industrial and Precision Machinery.



Theme of E-Plan 2025 and Key Areas

In E-Plan 2025, organization by target market will develop new businesses by creating value from the customer's point of view.

Theme:

Business creation: Creating value from the customer's perspective

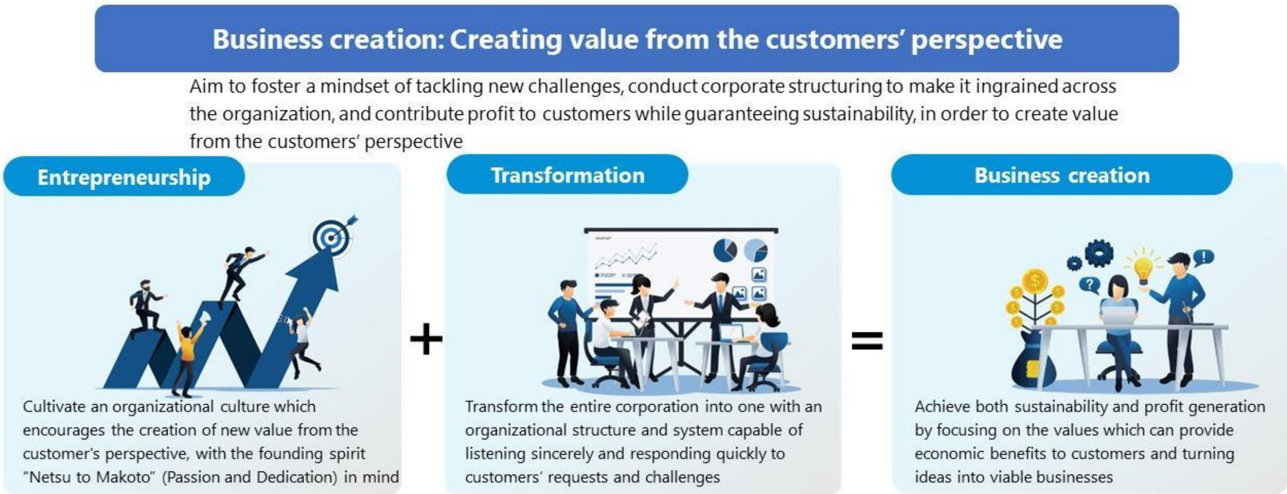
We strive for sustainable "entrepreneurship" and the creation of value, while fostering an organizational culture that supports a mindset of taking on challenges and transforming the entire company into a structure that truly addresses customer needs and issues, as well as creating a series of flows that generate business.

In addition, we have determined the five key areas to support the realization of the theme as described as follows:

1. Target markets & customer-orientation

2. New value creation
3. Global expansion
4. Advanced and efficient management infrastructure
5. Advances in ESG-focused management

We strive for sustainable “entrepreneurship” and the creation of value, while fostering an organizational culture that supports a mindset of taking on challenges and transforming the entire company into a structure that truly addresses customer needs and issues, as well as creating a series of flows that generate business.

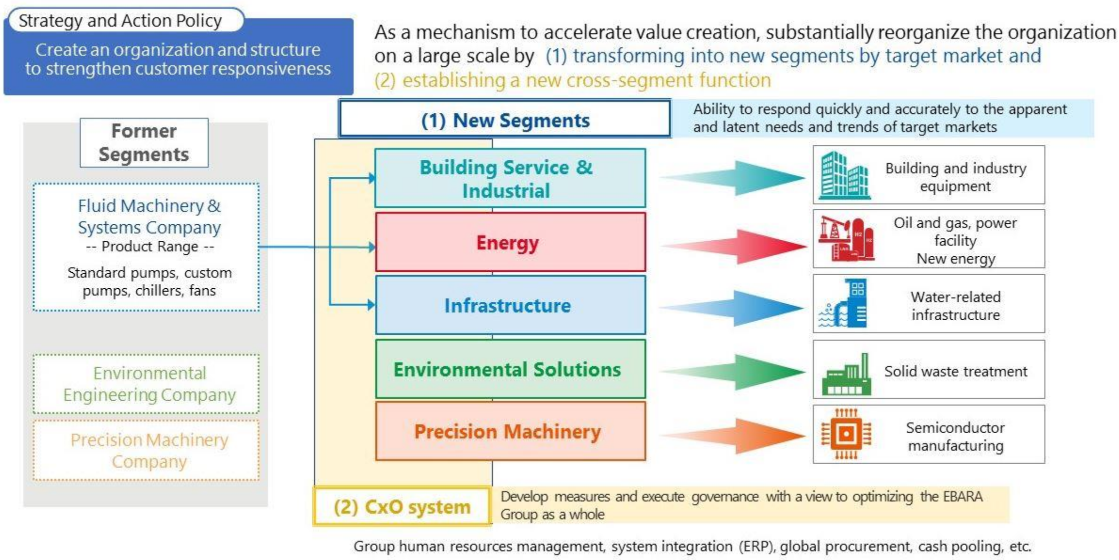


Changes in Business Segments

In the Medium-term Management Plan, E-Plan 2025, as the next growth stage toward the realization of our long-term vision, we have judged that it is reasonable to change our business segments from the conventional product-based segments to major market-based segments in order to be more market-oriented and achieve value creation from the customer’s perspective.

The former three business segments of the Fluid Machinery & Systems Business, the Environmental Plants Business, and the Precision Machinery Business have been changed to five business segments of the Building Service & Industrial Business, the Energy Business, the Infrastructure Business, the Environmental Solutions Business, and the Precision Machinery Business.

Specifically, the current Fluid Machinery & Systems Business segment, which consists of product axes such as pumps, compressors and turbines, and chillers, has been reorganized into three segments by major market: the Building Service & Industrial Business, the Energy Business, the Infrastructure Business, and these segments are positioned alongside the Environmental Solutions Business and the Precision Machinery Business.



Target Performance Indicators

We have set the following goals for fiscal year 2025, the final year of E-Plan 2025.

Financial Targets

Category	Item	FY2025 Target
Profitability	Company-wide operating profit ratio	10.0% or higher
	Operating profit ratio by segment	
	- Building Service & Industrial	7.0% or higher
	- Energy	12.0% or higher
	- Infrastructure	6.0% or higher
	- Environmental Solutions	7.0% or higher
	- Precision Machinery	17.0% or higher
Efficiency	ROIC*1	10.0% or higher
	ROE	15.0% or higher
Growth	Building Service & Industrial Revenue CAGR from FY2022 to FY2025	6.0% or higher
	Precision Machinery Revenue CAGR from FY2022 to FY2025	15.0% or higher
Financial health	Debt-to-equity ratio	0.3-0.5 (management guideline)

*1 ROIC: NOPLAT (Net Operating Profit Less Adjusted Taxes) ÷ invested capital {interest-bearing debt (average amount of the beginning and end of fiscal year) + Equity attributable to owners of parent (average amount of the beginning and end of fiscal year)}

Non-Financial Indicators

Category		FY2023-2025 Target
E: Environment	CDP score (climate change)	Maintain B or above
	SCOPE 1, 2: GHG emissions	Reduce by 32% compared to FY2018
	SCOPE3	Establish a practical measurement method to reduce 100 million tons by 2030
S: Social	Transform into a culture of competition and challenge, and strive to create an environment where diverse employees can comfortably work and perform well - Improve Engagement Survey Score (consolidated)	FY2025: 83 or higher FY2030: 86 or higher
	Aim for global mobility improvement - Percentage of non-Japanese employees (consolidated) in Global Key Position (GKP)	FY2025: 30.0% or higher FY2030: 50.0% or higher
	Resolve gender pay gap (1) Percentage of female employees in GKP (consolidated) (2) Percentage of female employees in key positions (non-consolidated)	(1) FY2025:8.0% or higher FY2030 10.0% or higher (2) FY2025: 8.0% or higher
	Cultivate a company culture where employees can work and raise children at the same time regardless of gender - Percentage of male employees taking parental leave (non-consolidated)	Establish data collection methods by the end of 2023 and set targets based on an action plan to improve the acquisition ratio
	Promote good performance of employees with special needs - Percentage of employees with special needs (non-consolidated + four group affiliates)	FY2025: 2.6% or higher
	Implement necessary measures based on the results of human rights due diligence for suppliers	
G: Governance	Deepen the performance of the Board of Directors and contributions to G to V: Governance to Value	

Estimated cash allocation over the E-Plan 2025 period (3-year cumulative total)

Item	Description	FY2023-2025 3-year cumulative total
Growth investment	Growth investment based on business portfolio (facilities for increased production, R&D, new business, M&A, etc.)	¥180.0 to 225.0 billion (including R&D expenses of ¥65 billion)
Infrastructure investment	Strengthen bases that underpin sustainable growth, etc. (maintenance and renewal equipment, human capital, IT such as ERP, business infrastructure, ESG investments)	¥50 to 80 billion
Shareholder returns	Dividend policy: Consolidated Dividend Payout Ratio of 35.0% or higher Repurchase of treasury stock: Implement flexibly at appropriate times, carefully considering the level of equity attributable to owners of parent, other investment targets, cash and deposits on hand, stock price trends, business performance trends, and other factors	

(4) Management Environment

The business environment assumed in the formulation of E-Plan 2025 is as follows:

segment	Primary target markets	Trends by market and region		EBARA's market prospects (3-year period)
Building Service & Industrial	Building and industry equipment	• Increase in housing complexes and buildings due to population concentration in cities • Increased demand for irrigation and drainage systems due to climate change, tighter environmental regulations • Growth of cutting-edge industries	Overseas Japan	Projected CAGR growth of 3.8%
Energy	Oil and gas Power facility New energy	• Demand for fossil fuels will decrease due to decarbonization to achieve carbon neutrality, while demand for LNG will increase in the short and medium-term (by 2030). • Increase in petrochemical demand along with population increase in developing countries. • Expansion of new and renewable energy markets such as CCUS, hydrogen, geothermal, and ammonia. • S&S services are expected to emerge due to personnel shortages and aging and outdated equipment at customers and plants.	Global	LNG: projected CAGR growth of 5.9% Ethylene: projected CAGR growth of 4.5%
Infrastructure	Water-related infrastructure Ventilation	• Stable outlook due to the national land resiliency plan and other factors	Japan	Remain stable
		• The global market for centrifugal pumps related to water and infrastructure to grow at a high rate in the Asian-Pacific region (including Japan and China)	Overseas	Projected global CAGR growth of 4.9%
Environmental Solutions	Solid waste treatment	• Market transition from a linear economy represented by mass production, mass consumption, and mass disposal to a circular economy (from disposal to resource circulation) and carbon neutral. ■ Number of waste incineration facilities constructed and core improvement works to remain stable ■ Market size of maintenance and management to grow due to accelerated outsourcing from the public to the private sector	Japan	Remain stable
Precision Machinery	Semiconductor manufacturing	• To have an expanding trend by 2025, though subject to a temporary adjustment, while growing trend for semiconductor demand remains unchanged over the medium- to long-term based on the widespread adoption of ICAC5*.	Global	Projected CAGR growth of 2.2%

*Collective term for IoT, Cloud, AI, Car (autonomous driving), and 5G

In the table, the arrows in "Trends by market and region" indicate market growth trends.

(5) Issues to be Addressed During E-Plan 2025

(5-1) Issues to be Addressed by Business Segment

Each business will resolve issues based on the following basic policies and strategies.

(i) Building Service & Industrial

i) Basic policy

・Aim for further business growth in the building service and industrial market by providing new solutions combining pumps, chillers, and services from the customer's perspective

・Refine and improve efficiency of operations and business management through the use of DX

ii) Basic strategies

・Strengthen solutions business

- Shift from selling products to selling services by providing solutions to customers
- Create and develop new business models
- Use IoT and cloud to enhance contact points with customers

・Capture growth markets (overseas)

- Global roll-out of M&A base products (Vansan, Hayward Gordon)
- Develop new markets by introducing high value-added products
- Enter industrial utility markets in developed countries with a focus on food and semiconductor markets
- Expand sales channels and promote irrigation products in Africa
- Establish new business locations in Africa, South America, Asia, and the Nordic region

・Rebuild global business infrastructure

- Expand overseas production bases and review global procurement and production allocation in consideration of geopolitical risks

(ii) Energy

i) Basic policy

・Establish new business models in sustainability and services to lead the energy shift and contribute to a decarbonized society

・Implement structural reforms to further improve profitability in existing business areas

・Deliver new value to customers and markets by integrating compressors and turbines with custom pumps

ii) Basic strategies

・Products (New Apparatus)

- Improve profitability by continuing selective acceptance of orders
- Complete preparations to bring new solutions to market

・S&S (Global Service)

- Restructure service locations
- Utilize service resources for compressors, turbines and custom pumps
- Develop new S&S business and bring it to market

・Global production system (Global Manufacturing)

- Promote optimization and standardization of engineering from the viewpoint of overall optimization of the EBARA Group
- Expand models subject to automatic design
- Restructure the production system
- Reduce procurement costs by expanding procurement from LCCs (low cost countries)

(iii) Infrastructure

i) Basic policy

・Japan: Strengthen product development capabilities in collaboration with production plants to maintain a strong share of public sector demand and earnings

・Overseas: Identify growth markets and create new value using pump equipment, peripheral technologies, and engineering technologies

ii) Basic strategies

・Expand market share in the Japanese pump market

- Strengthen product development capabilities and the engineering function
- Promote proposals to extend the service life of large pumping stations
- Reduce opportunity loss by increasing the number of qualified engineers and utilizing distributors

・Deepen the overseas pump market and secure profits

- Strengthen competitiveness by rolling out engineering technologies that are highly regarded in Japan to overseas business locations
- Maintain strategic orders and ensure profitability through front-loading

・Improve productivity in Japan and overseas

- Develop products in line with market needs
- Strengthen procurement capabilities
- Deepen collaboration among production bases
- Improve production technology utilizing DX and AI

(iv) Environmental Solutions

i) Basic policy

・Strengthen the foundation of core businesses

・Strengthen initiatives as a solution provider based on life cycle assessment (LCA) by appropriately responding to changes in the market, such as decarbonization and resource recycling

ii) Basic strategies

・Improve price competitiveness of new DBOs

・Prevent occurrence of additional EPC costs

[EPC]

- Reduce construction costs, equipment purchase costs, design management costs, etc.

- Make facilities more compact by standardizing design and revising policies

- Thoroughly utilize the results of design work process improvements, such as standardization and automation of design

- Prevent additional costs during civil engineering and plant construction by improving planning accuracy

[O&M]

- Optimize the maintenance line up for long-term comprehensive projects and reduce costs through competitive quotations

・Further strengthen the earnings base for existing O&M projects

- Expand peripheral O&M services

- Maximize facility operation period

・Strengthen efforts as a provider of decarbonization and resource recycling solutions based on LCA

- Improve the accuracy of chemical recycling technology and establish a scheme for its practical application

- Refine operations, maintenance, etc. through robot development

- Develop and provide new technologies and services

・Promote regional strategies

- Expand the equipment sales and engineering business to South East Asia through collaboration with local bases in China

(v) Precision Machinery

i) Basic policy

・Provide unique value not only by offering products and services, but also by resolving issues in customer processes and utilities

・Shift from a regional strategy to a global account strategy to expand market share through strategic planning and overall global optimization in line with global expansion by customers

ii) Basic strategies

・Strengthen product and solution development capabilities

[Components]

- Provide value and solutions for the entire sub-fab area of semiconductor factories, including contribution to decarbonization of semiconductor manufacturing by customers, new value through AI and DX, and expansion into industrial areas other than semiconductors

- Develop products such as dry vacuum pumps, exhaust gas treatment systems, chillers for semiconductor manufacturing equipment, and exhaust systems for next-generation EUV lithography equipment

- Develop solutions such as data monitoring and failure prediction functions

[CMP and other equipment]

- Build a market-in solution development system

- Reinforce R&D facilities

- Achieve more value creation through the use of data science

・Increase production capacity

[Components]

- For dry vacuum pumps, increase capacity utilization rate of automated plants and augment global overhaul capacity
- Conduct capital investments for each product, including exhaust systems for EUV lithography equipment, to meet rising demand

[CMP and other equipment]

- Construction of new building in Kumamoto District

・Rebuild global business infrastructure to support expansion of business scale

- Strengthen S&S by enhancing global customer support, rather than focusing on local support
- Strengthen the supply chain by establishing multiple suppliers, establishing overseas procurement bases, and restructuring inventory strategies
- Rebuild global organizational structure to meet increased demand

(5-2) Issues to be Addressed by ESG Management

(i) Responding to Climate Change

Climate-related Scenario Analysis Based on TCFD Recommendations

The EBARA Group recognizes that climate change is a serious challenge facing the world and has endorsed the TCFD in 2019. Through engagement with stakeholders, we recognize the importance of disclosing information about our governance, strategy, risk management, and indicators or targets in response to climate change and implementing such efforts.

With the goal of better identifying climate-related risks and opportunities for each business, we initiated a scenario analysis by major market. We estimated the financial impact of our businesses in the oil and gas market, which is evolving toward a decarbonized society, and in the semiconductor manufacturing market, which is indispensable for improving the efficiency of society as a whole, under a 4°C scenario, in which the temperature increase is limited to less than 4°C, and a 1.5°C scenario, in which the temperature increase is limited to less than 1.5°C. Based on the results, we have considered measures to address climate-related risks and opportunities up to 2050. We have a process of acquiring confirmation by the Board of Directors for the disclosure of information based on TCFD recommendations. Details are disclosed on the following website.

https://www.ebara.co.jp/en/sustainability/think/information/tcfd.html

https://www.ebara.co.jp/en/ir/library/annual-report/pdf/__icsFiles/afieldfile/2022/09/30/8_INT22_fvc_EN_2.pdf (P57 to 58 Disclosure Based on TCFD Recommendations)

This disclosure is included in the Ministry of the Environment's Practical Guide for Scenario Analysis 2022, Examples of scenario analysis disclosure (Japan and overseas).

Following the above measures, we are conducting scenario analysis for our businesses in the construction industry market, environmental market (solid waste treatment), and social infrastructure market in order to develop more resilient strategies in response to climate change.

Carbon Neutrality

The EBARA Group aims to achieve net zero GHG emissions by 2050 through reducing GHG emissions by the Group and in its value chain. Details are disclosed on the following website.

[Target for 2030]

1. Scope 1 + 2: Reduce GHG emissions by 55% compared to FY2018
2. Scope 3: Reduce 100 million tons of CO_2 equivalent

https://www.ebara.co.jp/en/sustainability/environment/information/carbon-neutrality.html

(ii) Support for Human Capital Management

We will further accelerate the development of a foundation for achieving sustainable global growth that has been promoted as a priority issue in E-Plan 2022, develop human resources who compete and take on challenges, and strengthen optimal placement throughout the Group through the enhancement of global mobility. Furthermore, we will strongly implement various global measures centered on the CHRO Office to change the organization by major market. We will build an environment and systems that allow all employees to take pride in working for the EBARA Group, think independently for business growth, take on challenges, and work actively, safely, and securely.

(ii)-1. Promotion of diverse human resources and establishment of global infrastructure

i) We will provide opportunities for employees who want to learn and take on challenges, and support them to work with a high level of motivation in the right places. For this reason, we will build systems that enable employees to aim for career change on their own, including visualization of various careers, and increase options for people who want to take on challenges through early selection and training of leadership candidates, shifting from mandatory training to voluntary training, and support for relearning with a high degree of freedom.

ii) It is important to increase the ratio of non-Japanese employees in global key positions (GKP)*1 and encourage global mobility in order for local employees of overseas Group companies to play an active role in more important positions. To this end, we will introduce a globally unified role grading system, roll out global human resource development programs company-wide, and strategically execute domestic and overseas succession plans.

iii) We will continue our referral hiring and alumni system, and promote a data-driven approach to attract diverse human resources. In addition, we will further expand the EBARA New Workstyle (ENW) program to provide a more comfortable working environment for diverse human resources. By enabling diverse work styles, we aim to improve employee engagement and foster a culture in which diverse human resources can play an active role.

*1 GKP: Managers with higher roles and grades across the group

(ii)-2. Establishment of a common global human resources management platform

We are building a Global Human Capital Management (HCM) Platform, which will serve as the foundation for our human resources portfolio. Through this, we will accelerate the visualization of human resources on a global scale and build a system that enables quantitative monitoring of the effects of each human resource measure and the implementation of the PDCA cycle, as well as a system that enables the global monitoring of human capital visualization requirements.

(ii)-3. Diversity & Inclusion

i) Promotion of task diversity

We will promote measures for increasing, finding, fostering, and connecting human resources who take on challenges that are capable of generating innovation. Based on surveys, we will promote an understanding of the current situation, and implement measures to ensure the inclusion of the right people in the right positions through the use of means such as people analytics and metaverse, focusing not only on visible differences such as gender and nationality (demographic diversity), but also on invisible differences such as experience and abilities (task diversity), and the realization of an organization with high psychological safety.

ii) People analytics

We will make date-driven, objective, and scientific decisions on policies in the human resources domain. We will create a model for recruiting diverse human resources and promote data-driven recruitment. To facilitate smooth people analytics, we will build a comprehensive organizational and operational design in the human resources domain by developing a data infrastructure, designing the databases necessary for operations, visualizing problems, standardizing operations, and making operations unmanned. We will promote the use of data to enable decision-making through people analytics in this manner.

iii) Promoting success of people with disabilities

To ensure that we can respond to the increase in the statutory employment rate and changes in the external environment, we will unify the EBARA Group’s management of people with disabilities and promote the employment and business of people with disabilities as a unified Group. By developing the capabilities of employees with disabilities from the viewpoint of career development, promoting an environment that allows them to take on challenges and grow, and expanding their participation in the Group’s business processes, we aim to ensure that all Group employees, regardless of disability, can work together and continue to provide value to the world.

(iii) Efforts on Corporate Governance

As the Board of Directors, we will continue to strengthen and improve corporate governance and further enhance its effectiveness under the following policy, aiming for “Governance to Value (G to V),” where governance contributes to the enhancement of corporate value and produces concrete results.

i) Supporting the EBARA Group's growth to solve medium- to long-term issues

To achieve E-Vision 2030 and E-Plan 2025, the Board of Directors will fully discuss the EBARA Group's medium and long-term issues (business portfolio, human capital, human resource development, promotion of diversity, important sustainability issues, etc.), and continue to encourage executives to accelerate the speed of reform, while providing supervision and verification. The restructuring of the governance system that the executives are pursuing in conjunction with the transition to a major market-based organization will be supervised and verified by our Board of Directors, which is the core of the EBARA Group's corporate governance, to ensure that business independence and decision-making based on that independence are compatible with disciplined governance.

ii) Supervision of sustainability by the Board of Directors and each committee

In order to oversee and encourage sustainability initiatives by the executives, in addition to agenda setting and discussion at the Board of Directors, the Nomination Committee (management human resources development, etc.), Compensation Committee (reflection of evaluation indicators in executive compensation, etc.), and Audit Committee (supervision of risks, etc.) will deepen discussions in accordance with their respective roles and responsibilities.

iii) Dialogue between the Board of Directors and stakeholders

In order to address sustainability issues and to manage the company in a way that contributes to the enhancement of corporate value, we believe that dialogue between the Board of Directors and shareholders, investors, and other stakeholders, as well as oversight and verification of the results of such dialogue by the Board of Directors, will become increasingly important, and the Board of Directors will actively address this issue.

iv) Continued efforts to improve effectiveness

We believe that effective corporate governance is essential for the Group's growth and continued enhancement of its value, and that the roles and responsibilities of the Board of Directors must be effective in order to achieve this. In line with this objective, during the period of E-Plan 2025 as well, the Board of Directors itself will continue to evaluate the effectiveness of the Board of Directors every year, identify issues, and work to resolve them, while continuously striving to reform governance.

In 2022, with the aim of examining and discussing the effectiveness of the Board of Directors on a more substantive and in-depth level, the Chairman of the Board of Directors, who understands well the inner workings of the Board of Directors, conducted individual interviews with all Directors to perform self-assessments and peer assessments of individual Directors. We will continue these initiatives during E-Plan 2025 to further improve its effectiveness.

2. Risk Factors

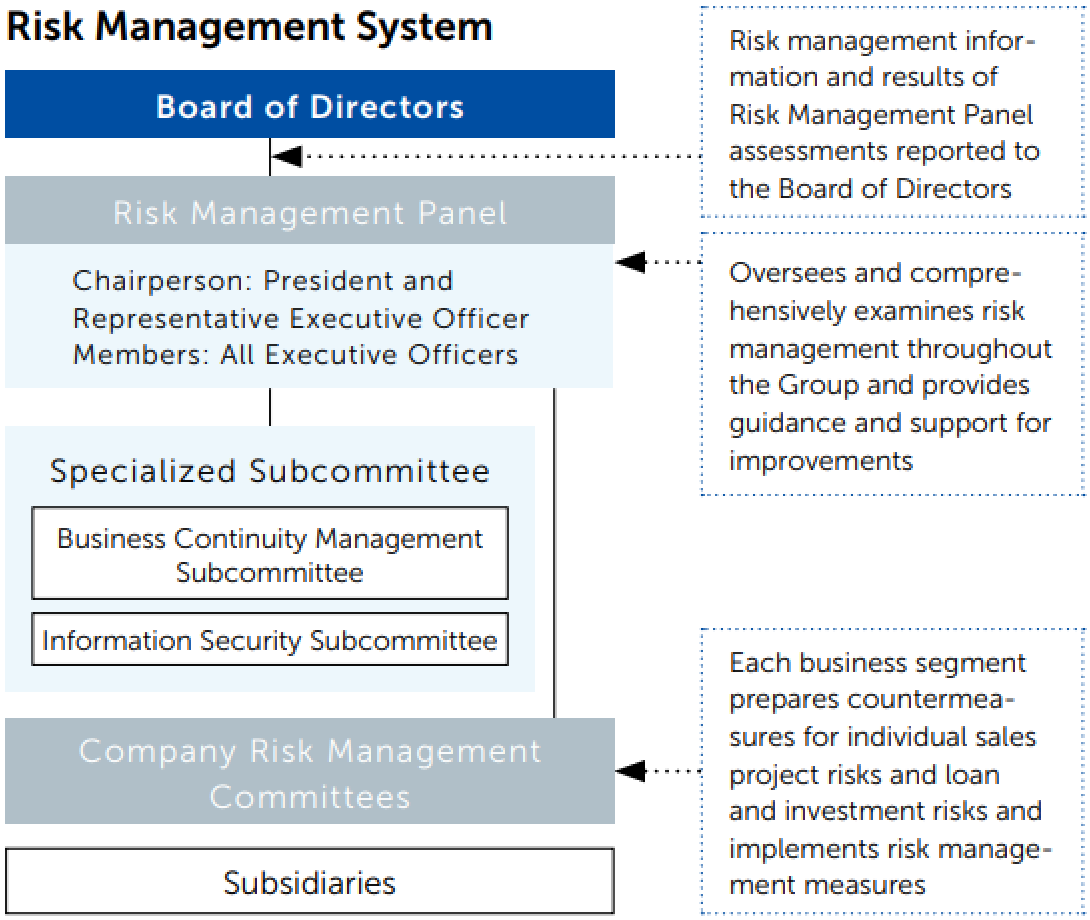
(1) The Company's Risk Management System

The Risk Management Panel ("RMP") has been established as an organization that oversees, deliberates on, and provides guidance and support for improvement of the EBARA Group's risk management activities. The risk management system centered on the RMP is shown in the diagram below. The RMP is chaired by the President and Representative Executive Officer and consists of all Executive Officers.

Non-executive Directors are present to provide supervision in risk management and to offer advice as necessary. The deliberations of the RMP are reported to the Board of Directors, and a system is in place to enable the Board of Directors to gain an accurate understanding of information and exercise its supervisory function. In addition, a task force headed by the President and Representative Executive Officer is launched when a company-wide response is required, depending on the degree of risk response, to ensure prompt reporting, communication, and decision making throughout the Company.

Each Executive Officer manages risks related to the Group's business activities in accordance with the division of duties among Executive Officers, and important matters are deliberated by the Management Meetings (a business execution meeting body that deliberates as necessary for the President and Representative Executive Officer to make decisions; for details, please refer to "IV. Information about Reporting Company, 4. Corporate Governance"). The Sustainability Committee has been established to discuss risks related to the creation of a sustainable society and environment through business activities (a business execution meeting body that deliberates on policies for business and supporting activities, determines KPIs and targets, and confirms results in order to contribute to the creation of a sustainable society and environment through business activities and to continuously improve corporate value; for details, please refer to "IV. Information about Reporting Company, 4. Corporate Governance"). The RMP oversees risk management activities, develops the risk response system of the Group as a whole, and supports risk response activities.

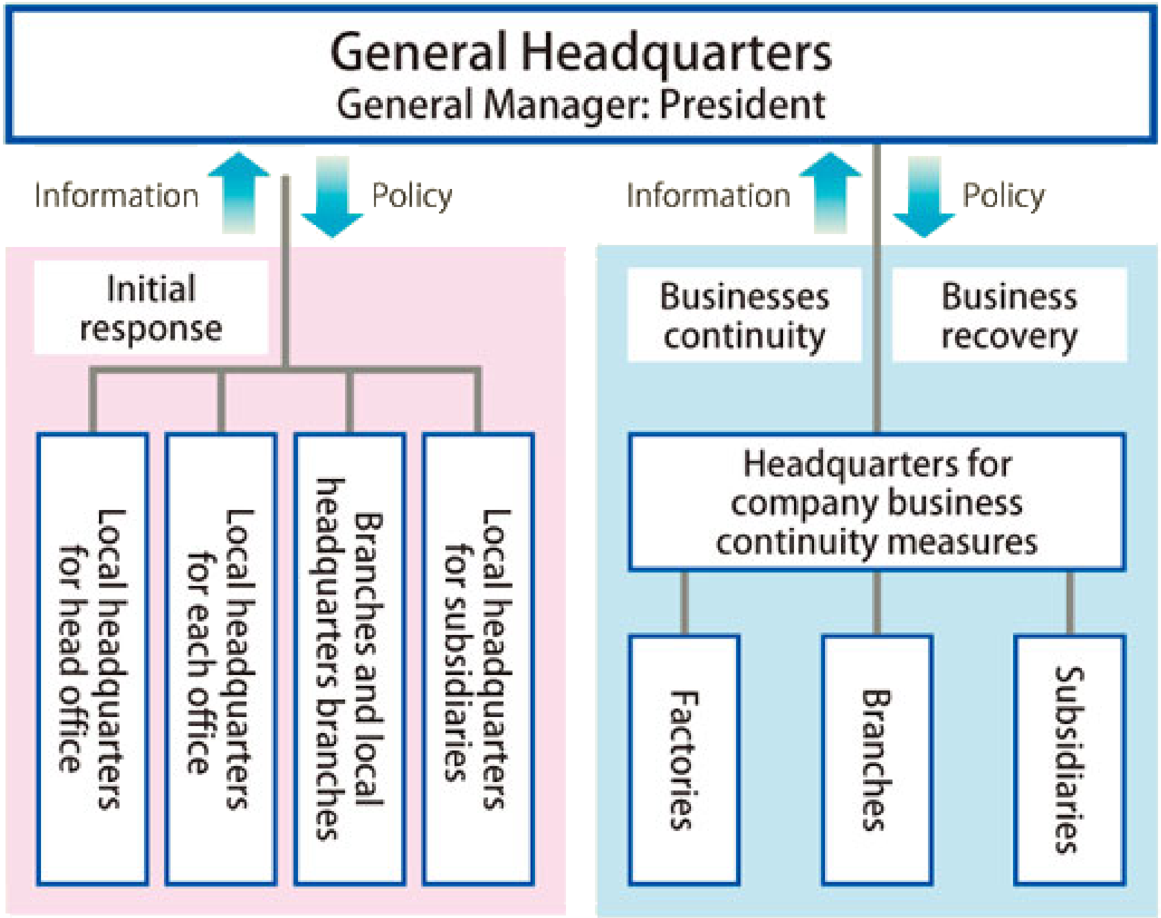
For an overall view of these executive committee bodies and the governance system, please refer to "IV. Information about Reporting Company, 4. Corporate Governance" and the website (https://www.ebara.co.jp/en/ir/governance/information/Basic-Policy-and-Framework.html).



(2) Business Continuity Management

We consider it our important work to provide products and services to support the continuation of functions and early restoration of important facilities that are critical to the lives and property of people in the event of a major earthquake or a large-scale infectious disease outbreak. Therefore, we have established a business continuity management system and put together an organizational structure and plan.

The general headquarters, headed by the President and Representative Executive Officer as the General Manager, will monitor company-wide activities from initial response to business continuity and business recovery, and will issue company-wide instructions and information. In "initial response activities," local headquarters established in each region direct activities such as evacuation, rescue, firefighting, and others to ensure the safety of employees and assets, while in "business continuity and business recovery activities," the companies direct the continuation of important operations and prompt recovery.



(3) Risk Analysis and Significant Risks for the Group

When establishing the E-Vision 2030 long-term vision and the E-Plan 2025 medium-term management plan, the Group performed analyses of the risks that may occur during the course of its business through a scenario planning approach accounting for medium- to long-term changes in social trends and market environment conditions. In addition, regular company-wide risk assessments are carried out with regard to the current risks surrounding the Group by analyzing the likelihood of occurrence, the degree of impact, and the residual risk after countermeasures from among the risks that can be assumed in light of our business characteristics.

In the risk assessment process, the Group's significant risks are identified from among more than 100 possible risks in the Group's business operations, based on an evaluation of risks that are significant in both the degree of impact and the likelihood of occurrence for the Group, and whether the countermeasures taken are sufficient. The Group then reorganizes its risk response system, including the divisions in charge and the executive body to which they report, and reports the results to the RMP.

In scenario analysis, we analyze scenarios of business impacts, including scenarios below 2°C, focusing on climate change factors, in line with the TCFD framework, while achieving consistency with the setting of a long-term vision.

Based on these scenarios, risks have been summarized in the table below in terms of company-wide risks and market-specific risks that we face.

The Group is aware of the possibility of the occurrence of risks and strives to avoid them and to respond to them if they do occur.

(i) Company-wide risks

No.	Item	Impact and likelihood of occurrence	Risks	Countermeasures
1	Global environmental and climate change	High impact and high likelihood of occurrence	• The move toward decarbonization could increase the burden of costs such as carbon taxes, and could also lead to major changes in industrial structure, such as the substitution of fossil fuels • Intensification of typhoons, forest fires, and other natural disasters	• Projection of risks and opportunities and implementation of countermeasures based on diverse, long-term scenario analyses -> Please refer to the following for a scenario analysis based on the TCFD recommendations: https://www.ebara.co.jp/en/sustainability/think/information/tcfd.html • Promotion of carbon neutrality measures -> We have formulated a major policy for the Group to become carbon neutral by 2050. For details, please refer to the following: https://www.ebara.com/en/sustainability/environment/information/carbon-neutrality.html • BCM plan development and continuous improvement based on hazard information, etc.
2	International situation and geopolitical risks	High impact and high likelihood of occurrence	• Unexpected restrictions and expenses in business activities due to impacts on economic, financial, and trade conditions stemming from political factors such as intensification of trade friction between the United States and China, conflict in the Middle East, and the situation in Ukraine (Related risks)	• For individual incidents, a task force headed by the President and composed of related Executive Officers will be established depending on the situation • As an overall response, development of global supply chains and value chains in light of risks
3	Changes in market conditions	High impact and high likelihood of occurrence	• Risk of not being able to respond to economic fluctuations and changes in market conditions • Risk of misreading changing customer needs • Risk of failing to catch up with technological innovation and becoming obsolete • Risk of dependence on specific customers or markets	• Each Executive Officer is responsible for identifying and managing risks related to management business strategies based on the segregation of duties, and important matters are deliberated by the Management Meeting
4	Risk of infectious disease	High impact and high likelihood of occurrence	• In addition to human life and health, lockdowns faced in response to the spread of COVID-19 and the supply chain disruptions triggered by it, as well as changes in working styles and information security issues, could have a tremendous impact in new infections that may occur in the future.	• Strengthening BCM plans for infectious diseases • Collaboration with industrial physicians to prevent infection and its spread • Strengthening supply chain management capacity
5	Cybersecurity risks	High impact and medium likelihood of occurrence	• External cyber-attacks, human negligence by the Company or contractors, as well as natural disasters, infrastructure failures, or other unforeseen events could result in the suspension of important operations and services, leakage of confidential and personal information, and destruction or falsification of important data	• Strengthening of software/hardware measures and development of ISO 27001-compliant systems • Education and training for employees and temporary staff regarding information security • Strengthening supply chain management capacity
6	Risk of foreign exchange rate fluctuations	Medium impact and high likelihood of occurrence	• Effects of foreign exchange rate fluctuations on business performance	• Appropriate foreign exchange risk hedging measures, including exchange contracts

No.	Item	Impact and likelihood of occurrence	Risks	Countermeasures
7	Risk of quality deception	High impact and small likelihood of occurrence	• Although the Group has strengthened its global quality control system, there have been scattered incidents at other manufacturers, and we are taking precautions to prevent such incidents from occurring in our Group.	• Establishment and operation of a system that does not allow human judgment in data measurement • Implement front-loading design reviews of customer specifications at the quotation stage • Continuously improve the organizational culture and quality culture through hearings, etc.
8	Supply chain risks	High impact and medium likelihood of occurrence	(In addition to risks related to supply chain due to the global situation and infectious diseases) • Risk of ESG/SDGs issues caused by suppliers such as repression of human rights • Business continuity risk, such as business closures due to suppliers' succession issues	• Strengthen monitoring of human rights and other ESG-related issues for suppliers • Secure alternative suppliers • Establish a cooperative system for supply chain BCM
9	Risks related to working styles and human resources	Medium impact and small likelihood of occurrence	• Risks related to increasing and strengthening the human resources needed to achieve the E-Vision 2030, and risks related to education and training to keep up with rapid changes in the work environment • The spread of COVID-19 is rapidly changing the working styles of employees and affecting their mental health.	• Develop and utilize a human resources data bank, reinforce and review compensation and training systems • Improve communication and implement mental health measures • Enhance engagement based on global engagement survey results
10	Contract risks	Medium impact and small likelihood of occurrence	• A liability clause could result in very large losses in the event of a problem	• Continue to strengthen negotiation and legal check systems at the time of signing contracts
11	M&A risks	Medium impact and small likelihood of occurrence	• Failure to achieve business investment results • Although expansion into the global market is necessary to achieve E-Vision 2030 and M&As are one effective means, the Group does not yet have much experience in M&As	• Implement thorough due diligence and strengthen cooperation with external advisors • Increase the number of people with M&A experience and transfer their experience, including tacit knowledge • Strengthen the PMI system to promptly incorporate M&A into the EBARA Group's management

(ii) Risks by Major Markets

Segment	Major markets	Main products	Major risks	Countermeasures
Building Service & Industrial	Building and industry equipment	Pumps, chillers, fans, cooling towers	• Tightening of regulations and intensification of price competition in areas where demand is growing • Deterioration in earnings due to market contraction caused by reduced demand for building equipment in areas with declining populations	• Competitive edge maintenance through differentiation of product development, focus on S&S operations, and operational streamlining • Implement strategic optimization of resources in global markets
Energy	Oil and gas Power facility New energy	Compressors, turbines, pumps, fans	• Occurrence of drastic changes in demand due to oil price fluctuations • Changes in the demand trends of customers due to the transition to a decarbonized society • Risks of a decline in market share due to a decline in order volumes and sales prices during an economic downturn, which may result in excess production capacity, putting pressure on profits, or a shortage of production capacity, including supply chain-related shortages, during an economic turnaround	• Promotion of businesses related to next-generation energy such as hydrogen energy • Formulation and execution of investment plans and resource management with high prediction accuracy made possible through confirmation of leading indicators, etc. in response to changes in demand • Reduction of break-even point through lead time shortening, design and manufacturing automation, and other streamlining measures in response to changes in demand • Ensuring stable profits through a higher proportion of S&S business in response to changes in demand
Infrastructure	Water infrastructure Ventilation	Pumps, fans	• Tightening of regulations and intensification of price competition in overseas markets • Compliance issues, including involvement in government-initiated bid collusion	• Competitive edge maintenance through differentiation of product development, focus on S&S operations, and operational streamlining • Shifting of resources toward global markets • Ongoing compliance education and internal audits
Environmental Solutions	Solid waste treatment	Waste processing plants	• Decrease in waste to be incinerated due to population decline and shift to circular economy • Lack of plant operation staff due to contraction of the labor market • Compliance risks specific to public works	• Competitive edge maintenance through differentiation of new technology, life cycle assessment (LCA), etc., and operational streamlining • Ongoing compliance education and internal audits
Precision Machinery	Semiconductor manufacturing	CMP equipment, Dry vacuum pumps, exhaust-gas treatment equipment	• Major changes in the investments and operations of customers due to the trends in semiconductor demand • Risks of a decline in market share due to a decline in order volumes and sales prices during an economic downturn, which may result in excess production capacity, putting pressure on profits, or a shortage of production capacity, including supply chain-related shortages, during an economic turnaround	• Formulation and execution of investment plans and resource management with high prediction accuracy made possible through confirmation of leading indicators, etc. in response to changes in demand • Reduction of break-even point through lead time shortening, design and manufacturing automation, and other streamlining measures in response to changes in demand • Ensuring stable profits through a higher proportion of S&S business in response to changes in demand

(4) Status of response to visible risks

In the event of a situation that may have a significant impact on management and requires a company-wide response, a risk response task force headed by the President and Representative Executive Officer is established as a system of response to risks to ensure prompt reporting, communication, and decision making company-wide. The risks that arose during the 158th fiscal year and our response to those risks are as follows.

(i) Countermeasures in Response to COVID-19

In response to the spread of COVID-19, the Group established the COVID-19 Infection Control Headquarters, headed by the President, to check the infection status of the Group on a weekly basis, while continuing to take infection prevention measures, promote vaccination of employees, their families, and partner companies, and implement new working styles during the pandemic. During this period, the Board of Directors oversaw measures from a medium to long-term perspective while monitoring the status of infection and efforts to prevent the spread of infection, while each business location continued its business activities while working to prevent the spread of infection in accordance with the policies of each country's government and region. In response to the transition to the post-COVID-19 era, we will continue our business activities under new ways of working to minimize the impact on our customers' businesses and lives as a company that provides products and services to society and industry while continuously taking measures to prevent the spread of infections, prioritizing the health and safety of our employees, customers, and all other stakeholders and the prevention of the spread of infections, based on our experience with the spread of COVID-19 and re-organizing internal preparations against unknown novel infectious diseases.

(ii) Situation in Ukraine

In response to the sudden change in the situation in Ukraine in February 2022, the Group promptly launched a task force headed by the President to gather and analyze information and unify intentions within the Group, with the safety of our employees, partners, and all other stakeholders as the top priority. While complying with the laws and regulations of each country, the Group takes the necessary measures as a company that provides products and services to society and industry.

The Group's transactions with Russia and Belarus are relatively small, and the direct impact of the situation in Ukraine on the Group's overall business is not material.

With regard to other geopolitical issues, after collecting and analyzing a wide range of information on events of concern, we will establish a task force headed by the President, depending on the situation, and implement measures such as evacuation from danger areas, action guidelines for employees and partner companies, and review of the global supply chain in accordance with advance preparations.

3. Management's Discussion and Analysis of Financial Position, Operating Results and Cash Flows

For the fiscal year ended December 31, 2022, the overview of the financial position, operating results, and cash flows (hereinafter "operating results") of the Group, and views and issues analyzed/discussed with regard to the status of operating results from the management's perspective, are as follows.

This document contains forward-looking statements, which are based on the Group's estimates and assumptions as of the filing date of this Securities Report.

(1) Business Performance

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022	Change	Change (%)
Orders received	771,483	815,218	43,735	5.7
Revenue	603,213	680,870	77,656	12.9
Operating profit	61,372	70,572	9,199	15.0
Operating profit ratio (%)	10.2	10.4	–	–
Profit attributable to owners of parent	43,616	50,488	6,871	15.8
Basic earnings per share (Yen)	463.44	548.61	85.17	18.4

During the fiscal year ended December 31, 2022, the global economy showed signs of recovery due to the gradual relaxation of countermeasures against COVID-19 and the normalization of economic activity. In the Japanese economy as well, capital investment showed signs of picking up as normalization of COVID-19 measures and economic activities advanced. Meanwhile, the outlook for the domestic and overseas economies remained uncertain due to factors such as soaring raw material prices, lack of semiconductors, impacts from the Ukraine situation on resource prices, and exchange rate fluctuations.

In the construction equipment market and the oil and gas market, which are the major markets of our group, demand recovered due to the mitigation of countermeasures against COVID-19. On the other hand, some investment projects were delayed due to concerns over inflation and the prolonged situation in Ukraine. In the semiconductor market, overall demand for semiconductors and capital investment by customers remained at high levels, while the recent decline in memory prices and the strengthening of export regulations against China by the U.S. saw the postponement of capital investment in some areas. In addition, public investment related to national resilience continued to be firm.

Under these circumstances, orders received for the fiscal year ended December 31, 2022 fell below the previous fiscal year in the Environmental Plants ("EP") Business, but were offset by stable result of the Fluid Machinery & Systems ("FMS") Business and the Precision Machinery ("PM") Business. As a result, orders received for the entire company increased from the previous fiscal year. Revenues increased in all three businesses compared to the previous fiscal year. In the FMS Business, steady progress in improving sales prices and capturing demand for services and support led to steady revenue growth both domestically and overseas. In the EP Business, revenue increased from the previous fiscal year due to steady development in EPC sales by the percentage-of-completion method. In the PM Business, although material shortages and shipment delay continue, strengthened personnel structure, increased production capacity and response to customer's high level plant operations led to revenue growth for both products and services & support.

Operating profit as a whole increased from the previous fiscal year due to higher revenue and improved profitability in the FMS and PM Businesses, as well as the positive contribution of the yen's depreciation, despite the impact of soaring raw material prices and negative factors resulting from increased fixed costs, mainly personnel expenses.

As a result, in the fiscal year ended December 31, 2022, consolidated orders received amounted to ¥815,218 million (an increase of 5.7% year-on-year), revenue amounted to ¥680,870 million (an increase of 12.9% year-on-year), operating profit amounted to ¥70,572 million (an increase of 15.0% year-on-year), profit attributable to owners of parent amounted to ¥50,488 million (an increase of 15.8% year-on-year). All of them replaced the past highest records.

Operating results by operating segment are as follows.

(Millions of yen)

Segment	Orders received			Revenue			Segment profit		
	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022	Change (%)	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022	Change (%)	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022	Change (%)
Fluid Machinery & Systems	354,810	406,488	14.6	336,980	383,393	13.8	24,793	32,038	29.2
Environmental Plants	129,496	105,810	(18.3)	71,824	73,738	2.7	5,632	3,669	(34.9)
Precision Machinery	285,401	301,551	5.7	192,791	222,259	15.3	28,035	36,183	29.1
Total of reportable segments	769,708	813,849	5.7	601,596	679,391	12.9	58,461	71,890	23.0
Others	1,775	1,368	(22.9)	1,617	1,478	(8.6)	1,168	(1,216)	–
Adjustment	–	–	–	–	–	–	1,743	(101)	–
Total	771,483	815,218	5.7	603,213	680,870	12.9	61,372	70,572	15.0

Fluid Machinery & Systems Business

In the fiscal year ended December 31, 2022, orders received amounted to ¥406,488 million, up ¥51,677 million year on year; revenue amounted to ¥383,393 million, up ¥46,413 million year on year; and operating profit amounted to ¥32,038 million, up ¥7,244 million year on year. Orders received and operating profit achieved a record-high level.

The Pumps Business recorded a year-on-year increase in revenue and profit due to the strong performance of the Standard Pumps Business mainly for the construction equipment market. Thanks to price revisions and the positive effects of the depreciating yen both in Japan and overseas, orders received, revenue, and operating profit all exceeded that of the previous fiscal year. The organic growth achieved mainly overseas as well as the inorganic growth through the M&As carried out in 2021 and 2022 contributed to the top-line growth. Meanwhile, in the Custom Pump Business, revenue from the oil and gas market was sluggish due to the impact of the stagnant Chinese market.

In the Compressors and Turbines Business, customers continued to be cautious in making investment decisions due to a sense of uncertainty over the economic outlook in the new products market as a result of inflation concerns and the prolonged situation in Ukraine. On the other hand, the demand for the Service & Support business including regular repair work increased while there were many projects with a short lead time and relatively high profitability, resulting in higher sales and profit for the entire business compared to the previous fiscal year.

In the Chillers Business, while revenue increased due to the strong demand in the Chinese market, operating profit was mostly flat.

Environmental Plants Business

In the fiscal year ended December 31, 2022, orders received amounted to ¥105,810 million, down ¥23,685 million year on year. Revenue amounted to ¥73,738 million, up ¥1,913 million year on year; and operating profit amounted to ¥3,669 million, down ¥1,962 million year on year.

While the number of project orders increased compared to the previous fiscal year, orders received decreased due to differences in the size of the projects from the previous fiscal year. Revenue increased due to progress made in constructions in EPC projects. The decrease in operating profit was due to one-time additional expenses incurred in the domestic EPC project and an increase in market electricity procurement costs in the electricity distribution business, which was based on power generation at waste incineration facilities. Overseas, also, profitability declined as a result of a Chinese subsidiary incurring additional costs in a contract manufacturing project of equipment and the difference in timing in posting the revenue of overseas projects.

* EPC: Engineering, procurement, and construction of plants

Precision Machinery Business

In the fiscal year ended December 31, 2022, orders received amounted to ¥301,551 million, up ¥16,150 million year on year; revenue amounted to ¥222,259 million, up ¥29,468 million year on year; and operating profit amounted to ¥36,183 million, up ¥8,147 million year on year. All of the figures achieved record-high level.

There were some developments including certain customers reexamining their capital investment plans and adjusting their plant operations toward the fiscal year-end due to the impact of lower memory prices. However, capital investments by the customers remained high throughout the year. Although the effects of shipment delays caused by the shortage of materials continued, orders received and revenue for both components and CMP equipment were strong and exceeded that of the previous fiscal year. Operating profit increased year on year due to the increase in revenue and also to improved productivity achieved at automated plants for dry vacuum pumps and increased demand for the Service & Support business.

Outline of Business Environment and Situation by Business Segment

Segment		Business environment in the fiscal year ended December 31, 2022	Business situation and the trend of orders received (Note 1)	
Fluid Machinery & Systems	Pumps	(Overseas) • In the oil and gas markets, the market situation improved compared to the previous year and large-scale projects began mainly in Saudi Arabia and Qatar. On the other hand, in China, planned projects such as ultra-large petrochemical complex and the integration and improvement of an old-fashioned small refinery have been delayed due to CO2 emissions adjustments. • Water infrastructure market is recovering with projects in China and Southeast Asia. In North America, renovation projects of deteriorated facilities resumed while price competition is severe. • In the construction equipment market, investment is in slow trend mainly due to soaring raw material prices. In China, demand recovery is slow even after the termination of the zero-corona policy. (Japan) • In the construction equipment market, the number of new construction starts is on a recovery trend. • Investment in renovation and maintenance for social infrastructure remains strong.	(Overseas) • Oil and gas related orders received exceeded that of the previous year. • The volume of orders received for the water infrastructure was lower than that of the previous year. • The volume of orders received for construction equipment exceeded that of the previous year. (Japan) • The volume of orders received for construction equipment exceeded that of the previous year. • In the public sector, the volume of orders received declined from that of the previous year, when there were orders for largescale projects, despite positive effects of measures such as comprehensive evaluation projects and expanded orders for after-sales services.	
	Compressors & Turbines	• In the new product market, there have been movements in projects such as the petrochemical market in the Middle East, and in North America, there have been movements in some projects, despite the impact of the situation in Ukraine and inflation. China has been sluggish due to growing uncertainty about the economic outlook. • In the service market, demand for maintenance, repair, and parts is generally firm. • In the LNG market (cryogenic pump), the situation is recovering as there are movements in some projects.	• The volume of orders received for products was lower than that of the previous year due to a review of the timing of orders for some projects. • The volume of orders received for service fields exceeded that of the previous year due to the easing of movement restrictions.	
	Chillers	• In Japan, capital investment is recovering in the construction market as well, following the industry-related market. • In China, capital investment is active in anticipation of the regulations for decarbonization, but there are concerns about power shortages and disruptions in logistics along with continuing steep rise in raw material prices.	• In Japan, the volume of orders received exceeded that of the previous year. • In China, the volume of orders received exceeded that of the previous year due to steady orders for products.	

Segment	Business environment in the fiscal year ended December 31, 2022	Business situation and the trend of orders received (Note 1)	
Environmental Plants (Note 2)	• Demand for new constructions of waste incineration facilities for the public sector ran at about the same level as in a typical year. • The volume of O&M orders placed for existing facilities ran at about the same level as in a typical year. • Construction demand for power generation facilities with woody biomass fuel for private companies and industrial waste incineration facilities for plastic waste, etc. continued at a certain level.	• The volume of orders received was lower than that of the previous year despite large-scale projects received of seven orders, an increase from the previous year, when the scale of projects per project was large. (Overview of major orders received) • EPC project of waste incineration facilities for the public sector (1 order) • DBO project of waste incineration facilities for the public sector (1 order) • Long-term comprehensive agreement for the public sector (3 orders) • Core improvement project for the public sector (2 orders)	↘
Precision Machinery	• Against the backdrop of the lack of semiconductors, semiconductor manufacturers are actively investing. The scale of the semiconductor manufacturing equipment market was larger than that of the previous fiscal year, but recently there have been some delays in capital investment due to the fall in memory prices and the strengthening of export regulations against China by U.S.	• Despite a slowdown in investment by some semiconductor manufacturers, the overall market remained strong, and orders were up from the previous fiscal year due to the impact of increased investment by Chinese customers.	↗

Notes: 1. Arrows indicate a year-on-year increase/decrease in orders received:

in the case of +5% or more increase: ↗ in the case of -5% or greater decrease: ↘ in the case of movement within the -5% and +5% range: →

2. O&M (Operation & Maintenance): The operation and maintenance of plants

DBO (Design, Build, and Operate): The contract for operation and maintenance after construction for a certain period of time, in addition to the engineering, procurement, and construction for plants

Status of production, orders received and sales are as follows:

(i) Actual Production

Actual production by segment during the fiscal year ended December 31, 2022 is as follows:

Segment	Production (Millions of yen)	YoY change (%)
Reportable segments		
Fluid Machinery & Systems	384,788	14.1
Environmental Plants	21,455	3.4
Precision Machinery	183,489	22.0
Total of reportable segments	589,733	16.0
Others	391	29.3
Total	590,124	16.0

(ii) Overview of Orders Received

The overview of orders received by segment during the fiscal year ended December 31, 2022 is as follows:

Segment	Orders received (Millions of yen)	YoY change (%)	Backlog of orders received (Millions of yen)	YoY change (%)
Reportable segments				
Fluid Machinery & Systems	406,488	14.6	269,788	20.2
Environmental Plants	105,810	(18.3)	317,491	11.3
Precision Machinery	301,551	5.7	230,811	62.8
Total of reportable segments	813,849	5.7	818,091	25.6
Others	1,368	(22.9)	67	(61.8)
Total	815,218	5.7	818,158	25.6

(iii) Actual Sales

Actual sales by segment during the fiscal year ended December 31, 2022 are as follows:

Segment	Sales (Millions of yen)	YoY change (%)
Reportable segments		
Fluid Machinery & Systems	383,393	13.8
Environmental Plants	73,738	2.7
Precision Machinery	222,259	15.3
Total of reportable segments	679,391	12.9
Others	1,478	(8.6)
Total	680,870	12.9

Note: The amounts in (i) through (iii) above are based on sales prices and represent amounts after elimination of intersegment transactions.

(2) Financial Position

(i) Assets

Total assets as of December 31, 2022 were ¥828,049 million, ¥108,313 million higher than as of December 31, 2021. Principal changes in asset items included an increase of ¥59,947 million in inventories, ¥21,543 million in trade and other receivables, and ¥20,128 million in goodwill and intangible assets.

Assets by operating segment were ¥429,517 million in the Fluid Machinery & Systems Business (an increase of ¥68,531 million year-on-year), ¥64,656 million in the Environmental Plants Business (an increase of ¥9,593 million year-on-year), ¥228,975 million in the Precision Machinery Business (an increase of ¥47,835 million year-on-year) and ¥43,507 million in Others (an increase of ¥8,774 million year-on-year).

(ii) Liabilities

Total liabilities as of December 31, 2022 were ¥458,323 million, ¥60,243 million higher than as of December 31, 2021. Principal changes in liability items included an increase of ¥32,833 million in trade and other payables, ¥13,396 million in contract liabilities, and ¥7,168 million in other current liabilities.

(iii) Equity

Equity as of December 31, 2022 amounted to ¥369,725 million, ¥48,069 million higher than as of December 31, 2021. Principal changes in equity included dividends paid of ¥18,216 million, profit attributable to owners of parent of ¥50,488 million, and an increase of ¥14,134 million in exchange differences on translation of foreign operations.

Total equity attributable to owners of parent amounted to ¥359,966 million, and the ratio of equity attributable to owners of parent was 43.5%.

(3) Analysis and Review of the Status of Cash Flows and Information on the Source of Capital and Liquidity of Funds

(i) Cash Flows

Net cash provided by operating activities amounted to a net inflow of ¥37,070 million for the fiscal year ended December 31, 2022, a decrease of ¥35,788 million compared to the previous year. This is primarily due to outflow by increase in inventories of ¥54,411 million while operating profit was robust.

Net cash used in investing activities amounted to a net outflow of ¥38,324 million for the fiscal year ended December 31, 2022, an increase of ¥6,962 million in net outflow compared to the previous year. This is primarily due to purchase of property, plant and equipment, and intangible assets of ¥24,347 million and ¥14,675 million used for purchase of shares of subsidiaries resulting in change in scope of consolidation.

Free cash flow, the sum of cash flows from operating and investing activities, amounted to a net outflow of ¥1,254 million for the fiscal year ended December 31, 2022 (a net inflow of ¥41,497 million for the previous year).

Net cash used in financing activities amounted to a net outflow of ¥23,749 million for the fiscal year ended December 31, 2022, a decrease of ¥5,739 million in net outflow compared to the previous year. This is primarily due to a net decrease in short-term and long-term borrowings of ¥8,029 million and cash dividends paid of ¥18,216 million.

As a result, cash and cash equivalents as of December 31, 2022 amounted to ¥116,137 million, ¥20,351 lower than as of December 31, 2021.

(ii) Basic Policy for Financial Strategies

The Group considers raising and allocating capital in a timely and appropriate manner to be a fundamental part of its financial strategy, while taking into consideration the balance between capital efficiency and financial soundness. We will utilize debt while maintaining a D/E ratio for financial discipline, based on keeping a single A flat* credit rating, which we consider sufficient for the promotion of our current business. We will also promote the efficient use of invested capital by improving the cash conversion cycle and selecting and disposing of inefficient assets. In addition, we aim to "maximize long-term corporate value" by maintaining a consolidated dividend payout ratio of 35% or more as shareholder returns, while taking advantage of opportunities to invest capital in investments that will lead to increased corporate value.

(*) A rating by Rating and Investment Information, Inc. (R&I)

(iii) Financing

The Group will make effective use of not only internal funds, mainly consisting of operating cash flow, but also external funds, such as borrowings from financial institutions and the issuance of bonds, as working capital required for business operations and investment funds for growth. We promote the use of debt based on a D/E ratio of 0.3 to 0.5 to reduce capital costs and improve capital efficiency.

We also intend to control the level of cash and deposits (liquidity on hand) within an appropriate range within two months of consolidated revenue. In addition, we secure alternative liquidity by entering into commitment line agreements and other arrangements to address financial risks. In order to increase the efficiency of funds within the Group, we have a system in place to concentrate funds in the Company.

Alternative liquidity

Overdraft contract: ¥5,000 million

Commitment line contracts: ¥80,000 million

There were no outstanding borrowings from these sources as of December 31, 2022.

(4) Significant Accounting Estimates and Underlying Assumptions

The consolidated financial statements of the Group are prepared in compliance with IFRS. In preparing its consolidated financial statements, the Group makes various estimates and assumptions based on conditions at the end of the period. These estimates and assumptions affect the consolidated financial statements and contingent liabilities.

For more details, please refer to “V. Financial Information, 1. Consolidated Financial Statements, (1) Notes to the Consolidated Financial Statements, 3. Significant accounting policies” and “V. Financial Information, 1. Consolidated Financial Statements, (1) Notes to the Consolidated Financial Statements, 4. Significant accounting estimates and related judgments.”

4. Significant Management Contracts

(1) Technology Introduction Contracts

There are no important contracts to be reported.

(2) Licensing Contracts

There are no important contracts to be reported.

(3) Business Alliance Contracts

There are no important contracts to be reported.

(4) Acquisition Contracts

There are no important contracts to be reported.

5. Research and Development Activities

The Group undertakes R&D activities aimed at realizing the “E-Vision 2030,” our value creation story formulated in 2020. In order to contribute sustainably to society through the process of resolving the “five material issues” that we have identified as key issues, we are engaged in the Fluid Machinery & Systems Business, the Environmental Plants Business, and the Precision Machinery Business, in cooperation with the corporate R&D organization that collaborates with these businesses.

Each business division and Group company effectively pursued R&D for practical application of new technologies and application of new products, as well as collaboration with external organizations, such as business alliances, to increase added value of our technologies and products.

The corporate R&D organization strengthened the common foundation and strategically important core technologies that support these businesses, while exploring and commercializing technological seeds based on medium- to long-term perspectives. Joint research with universities and other external research institutions was also actively promoted. Furthermore, we are using the Ebara Innovation for X (EIX) system, a system for creating new businesses, to accelerate the creation of new manufacturing technologies utilizing xR technology and metal 3D printers with the aim of promoting digital transformation (DX) of manufacturing sites. In addition, to realize a hydrogen society, which is essential for the creation of a sustainable society, we have launched the CP Hydrogen Business Project as a Group-wide challenge. EBARA has started activities aimed at the social implementation of clean hydrogen-related technologies in all areas of production, transport, and use by leveraging its technologies and know-how. With co-creation as our basic philosophy, we are strengthening industry-government-academia collaboration and engaging in cross-organizational efforts to develop centrifugal liquid hydrogen pumps and hydrogen compressors, which are essential for the construction of large-scale hydrogen supply chain and hydrogen power generation, as well as plunger pumps for hydrogen refueling stations. We are also working on social implementation in the field of clean hydrogen production, such as hydrogen production from waste plastics and turquoise hydrogen production using natural gas. We have also developed fuel supply pumps for satellite rockets that use cryogenic fuels such as liquid hydrogen, and are participating in the aerospace field.

R&D expenses for the fiscal year ended December 31, 2022 amounted to ¥15,264 million.

Activities by business segment are as follows:

Fluid Machinery & Systems (FMS) Business

In the Fluid Machinery & Systems Business, the FMS Company bolstered product lineup and strengthened product capabilities, through efforts including strengthening coordination with overseas Group companies, for products for global markets, such as water infrastructure, energy (gas and electricity), functional chemicals, pharmaceuticals and medical care, and construction equipment, which are expected to sustain growth over the medium- to long-term.

In standard pumps, the FMS Company continued to develop a range of products that integrate all electromechanical, communication, and control functions with the aim of conserving energy and resources and reducing the environmental burden. It is also expanding the product lineup of compact, space-saving, energy-saving canned pumps and inverter-integrated PM motor IVMs with communication functions, and developing ICT technology products that contribute to saving customers’ manpower and labor.

In custom pumps, the FMS Company continued to develop ammonia pumps to meet the needs of decarbonization in the energy field and products aimed at conserving energy and resources and reducing the environmental burden in the water usage field.

In the compressor and turbine field, the FMS Company completed the development of new high-efficiency turbines that contribute to conserving energy and resources, and is preparing to launch sales. It is also developing elemental technologies to improve the performance and reliability of compressors, turbines, and cryopumps.

In the chillers business, the FMS Company continued to develop refrigeration units that use refrigerants with low global warming potential to meet the growing need for reduced environmental impact, and is working to expand its product lineup and the range of applications and has brought to market a water-cooled screw chiller that uses a low-GWP refrigerant. In addition, to meet the growing demand for semiconductors amid technological progress of the information age, the FMS Company is developing temperature controllers for the semiconductor manufacturing process to help improve productivity.

In relation to basic technology, in cooperation with the corporate R&D organization, the FMS Company is promoting “development of methods to improve performance using numerical simulation and new optimization methods,” further improvement of development throughput by “streamlining the digital design and analysis process, including the automation of 3D-CAD,” “establishment of a pump condition prediction method using IoT technology,” and other efforts.

During the fiscal year ended December 31, 2022, the FMS Company made R&D expenditures of ¥7,452 million.

Environmental Plants (EP) Business

In the Environmental Plants Business, the EP Company is engaged in design, build, and operate (DBO) services for waste incineration facilities, which entail providing engineering, procurement, and construction (EPC) services and operation and maintenance (O&M) services on a comprehensive, long-term basis. The EP Company is also developing the facility life extension business that proposes ways to extend the life of existing facilities as well as the long-term comprehensive management business where it is entrusted with long-term O&M services of existing facilities. These businesses require ever stronger solution provision capabilities and cost competitiveness, and higher service quality. In light of these conditions, the EP Company is developing new products and technologies that help strengthen facilities' functionality through upgrades and reduce life cycle costs. Its development activities also include improving repair, maintenance, and operating technologies, and in order to facilitate these activities, the EP Company will further utilize the artificial intelligence and IoT. In addition, the EP Company is working to develop element technologies for improving power generation efficiency and operational stability, with the expectation of higher demand for woody biomass power generation as a form of renewable energy and for industrial waste incineration. Furthermore, the EP Company is developing recycling technology for chemical recycling of waste plastics to contribute to the carbon neutrality and reduction of marine pollution caused by plastics, which have recently become global trends.

During the fiscal year ended December 31, 2022, the EP Company made R&D expenditures of ¥1,170 million.

Precision Machinery (PM) Business

In the Precision Machinery Business, the PM Company is developing new processing equipment and improving existing equipment to manufacture semiconductor devices that are compatible with development requirements not only for the miniaturization of chips and three-dimensional integration, but also for new packaging technology, an area of increasing importance. The PM Company is also tailoring these efforts to the technology development requirements projected for the AI and the IoT market that is growing rapidly. As for component products, the PM Company is developing products that can further contribute to energy savings and reduced environmental footprints as well as products that take advantage of our strengths as a comprehensive exhaust abatement system manufacturer. Furthermore, it is also working to improve productivity and quality through DX and xR technologies, as well as to strengthen its after-sales business.

Also, the PM Company is continuing research on next-generation semiconductor processing technologies through joint development and consortia with customers and joint research with prominent universities.

During the fiscal year ended December 31, 2022, the PM Company made R&D expenditures of ¥6,641 million.

III. Facilities

1. Overview of Capital Investment

For the fiscal year under review, the Group implemented capital investments amounting to ¥27,597 million, primarily for the expansion of production capability and the installation of equipment to increase productivity. In addition to property, plant and equipment, investment amounts include investments in intangible assets.

Principal capital investments by business segment are as follows. Please note that these investment amounts include inter-segment transactions.

(Fluid Machinery & Systems Business)

Investments were made primarily for the maintenance and enhancement of production capability and the increase in productivity. The amount of capital investment was ¥10,994 million.

(Environmental Plants Business)

Investments were made primarily for information technology equipment and for the development of technology aimed at improving functionality. The amount of capital investment was ¥2,013 million.

(Precision Machinery Business)

Investments were made primarily for the enhancement of production capability. The amount of capital investment was ¥6,328 million.

(Others)

Investments were made primarily for information technology equipment and software. The amount of capital investment was ¥8,290 million.

2. Major Facilities

(1) Reporting Company

As of December 31, 2022

District name (Location)	Segment	Facilities	Carrying amount (Millions of yen)						Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area/ thousands of m^2)	Leased assets	Others	Total	
Futtsu District (Futtsu-shi, Chiba)	Fluid Machinery & Systems	Facilities for production of pumps, etc.	5,112	788	1,850 (103)	-	76	7,828	296
Sodegaura District (Sodegaura-shi, Chiba)	Fluid Machinery & Systems	Facilities for production of compressors and turbines, etc.	75	0	1,844 (145)	-	-	1,920	-
Fujisawa District (Fujisawa-shi, Kanagawa)	Fluid Machinery & Systems	Facilities for production of pumps and refrigeration and heating equipment, etc.	1,608	3,024	363 (148)	-	227	5,224	410
Fujisawa District (Fujisawa-shi, Kanagawa)	Precision Machinery	Facilities for production and development of semiconductor manufacturing equipment and vacuum pumps, etc.	15,363	15,008	466 (189)	59	1,412	32,309	1,049
Kumamoto District (Tamana-gun, Kumamoto)	Precision Machinery	Facilities for production of semiconductor manufacturing equipment, etc.	5,100	265	1,881 (185)	30	196	7,473	193
Head Office, etc. (Ota-ku, Tokyo, etc.)	Others	Information infrastructure equipment and office buildings, etc.	10,311	2,111	1,892 (14)	281	892	15,490	606

Notes: 1. Amounts based on Japanese GAAP are stated for carrying amount.
2. Among carrying amount, “Others” represents tools, furniture and fixtures, and excludes construction in progress.

(2) Domestic Subsidiaries

As of December 31, 2022

Company name (Location)	Segment	Facilities	Carrying amount (Millions of yen)						Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area/ thousands of m^2)	Leased assets	Others	Total	
Elliott Ebara Turbomachinery Corporation (Sodegaura-shi, Chiba) (Note 4)	Fluid Machinery & Systems	Facilities for production of compressors and turbines, etc.	458	1,876	-	257	78	2,670	399
EBARA FAN & BLOWER CO., LTD. (Suzuka-shi, Mie, etc.)	Fluid Machinery & Systems	Facilities for production of fans, etc.	397	877	109 (60)	-	62	1,447	258
Chubu Recycle Co., Ltd. (Nagoya-shi, Aichi)	Environmental Plants	Facilities for melting and recycling of incinerator ash and fly ash, etc.	387	656	- [38]	33	19	1,097	55

Notes: 1. Amounts based on Japanese GAAP are stated for carrying amount.
2. Among carrying amount, “Others” represents tools, furniture and fixtures, and excludes construction in progress.
3. The area related to land-use rights is in brackets [ ].
4. The Company is leasing the land and buildings, etc.

(3) Overseas Subsidiaries

As of December 31, 2022

Company name (Location)	Segment	Facilities	Carrying amount (Millions of yen)						Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area/ thousands of m^2)	Right-of-use assets	Others	Total	
EBARA GREAT PUMPS CO., LTD. * (China) (Note 3)	Fluid Machinery & Systems	Facilities for production of pumps, etc.	772	434	- [95]	85	283	1,575	425
EBARA REFRIGERATION EQUIPMENT & SYSTEMS (CHINA) CO., LTD. (China) (Note 3)	Fluid Machinery & Systems	Facilities for production of refrigeration and heating equipment, etc.	1,553	246	- [194]	617	158	2,575	599
EBARA VIETNAM PUMP COMPANY LIMITED (Vietnam) (Note 3)	Fluid Machinery & Systems	Facilities for production of pumps, etc.	1,080	350	- [12]	182	0	1,613	227
Ebara Pumps Europe S.p.A. (Italy) (Note 4)	Fluid Machinery & Systems	Facilities for production of pumps, etc.	301	1,161	43 (25) [27]	1,064	78	2,648	493
Elliott Company (United States)	Fluid Machinery & Systems	Facilities for production of compressors and turbines, etc.	10,827	8,380	292 (482)	1,146	531	21,179	1,078
Ebara Precision Machinery Korea Inc. (Korea)	Precision Machinery	Facilities for production of component devices and semiconductor manufacturing equipment, etc.	1,431	783	408 (9)	-	13	2,636	248
Ebara Precision Machinery Taiwan Inc. (Taiwan)	Precision Machinery	Facilities for production of vacuum pumps and CMP equipment, etc.	644	179	660 (7)	38	28	1,551	376

*The Chinese character for pumps is written as water under stone.

Notes: 1. Amounts based on IFRS are stated for carrying amount.
2. Among carrying amount, “Others” represents tools, furniture and fixtures, and excludes construction in progress.
3. The area related to land-use rights is in brackets [ ].
4. The area of land leased from parties other than consolidated companies is in brackets [ ].

3. Plan of New Installation and Disposal of Facilities

(1) New Installation of Major Facilities

Company/district name (Location)	Segment	Facilities	Investment plan (Millions of yen)	Financing method
Reporting company				
Fujisawa District (Fujisawa-shi, Kanagawa)	Building Service & Industrial	Facilities for production of pumps, etc.	2,000	Self funding, etc.
Head Office, etc. (Ota-ku, Tokyo, etc.)	Building Service & Industrial	Information infrastructure equipment	900	Self funding, etc.
Elliott Ebara Turbomachinery Corporation (Sodegaura-shi, Chiba)	Energy	Facilities for production and testing of compressors and turbines, etc.	1,600	Self funding, etc.
Elliott Company (U.S.A.)	Energy	Facilities for production and testing of compressors and turbines, etc. and service shops, etc.	4,700	Self funding, etc.
Reporting company				
Futtsu District (Futtsu-shi, Chiba)	Infrastructure	Facilities for production of pumps, etc.	300	Self funding, etc.
Head Office, etc. (Ota-ku, Tokyo, etc.)	Infrastructure	Information infrastructure equipment	500	Self funding, etc.
Reporting company				
Fujisawa District (Fujisawa-shi, Kanagawa)	Precision Machinery	Facilities for production of semiconductor manufacturing equipment and vacuum pumps, etc.	6,300	Self funding, etc.
Kumamoto District (Tamana-gun, Kumamoto)	Precision Machinery	Facilities for production of semiconductor manufacturing equipment, etc.	600	Self funding, etc.
Head Office, etc. (Ota-ku, Tokyo, etc.)	Precision Machinery	Information infrastructure equipment	1,800	Self funding, etc.
Ebara Precision Machinery Taiwan Incorporated (Taiwan)	Precision Machinery	Facilities for production of vacuum pumps, etc.	15,400	Self funding, etc.
Reporting company				
Head Office, etc. (Ota-ku, Tokyo, etc.)	Others	Information infrastructure equipment and office buildings, etc.	6,700	Self funding, etc.

Notes:
1. Description of production capacity in relation to the addition of above-stated facilities is omitted because products of different type, performance, etc. are manufactured at each facility mainly to meet individual orders of the customers and it is difficult to measure such capacity.
2. The names of the business segments have been changed, as the Board of Directors, at its meeting held on August 12, 2022, resolved to change the previous three business segments of “Fluid Machinery & Systems,” “Environmental Plants,” and “Precision Machinery” to the five business segments of “Building Service & Industrial,” “Energy,” “Infrastructure,” “Environmental Solutions,” and “Precision Machinery” from the first quarter of the fiscal year ending December 31, 2023.

(2) Disposal of Major Facilities

There are no matters to be reported.

IV. Information about Reporting Company

1. Company’s Shares

(1) Total Number of Shares

(i) Authorized Shares

Class	Number of shares authorized (shares)
Common shares	200,000,000
Total	200,000,000

(ii) Issued Shares

Class	Number of issued shares as of fiscal year end (shares) (December 31, 2022)	Number of issued shares as of filing date (shares) (March 30, 2023)	Name of financial instruments exchange on which securities are listed or authorized financial instruments business association to which securities are registered	Description
Common shares	92,086,015	92,096,115	Prime Market of the Tokyo Stock Exchange	Shares with full voting rights, which are standard shares of the Company with no restrictions on rights. The number of shares constituting one unit is 100 shares.
Total	92,086,015	92,096,115	–	–

Notes: 1. During the period from January 1, 2023 to February 28, 2023, the Company issued 10,100 shares upon exercise of subscription rights to shares (stock options).

2. The number of issued shares as of the filing date does not include shares issued upon exercise of subscription rights to shares between March 1, 2023 and the filing date of this Annual Securities Report.

(2) Subscription Rights to Shares

(i) Stock Option Plan

The Company has adopted a stock option plan, under which subscription rights to shares are issued in accordance with the Companies Act.

The Company conducted a stock consolidation at a ratio of one share for every five shares effective on October 1, 2016 based on a resolution of the 151st Ordinary General Meeting of Shareholders held on June 24, 2016. The Company also changed the number of shares constituting one unit from 1,000 shares to 100 shares as of October 1, 2016 based on a resolution at the Board of Directors meeting held on May 11, 2016. As a result, as for the subscription rights to shares presented from i) to ix) below, “number of shares underlying subscription rights to shares” and “issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares” are adjusted in accordance with the issuance procedure.

The details of the plan are as follows.

i) 1st Series Subscription Rights to Shares (share-based payment stock option)

Resolution as of October 19, 2009 (Title and number of grantees: 9 Directors (excluding Outside Directors) and 23 Executive Officers (*shikkou-yakuin*) of the Company)		
	As of December 31, 2022	As of the month end prior to the filing date (February 28, 2023)
Number of subscription rights to shares (units)	24 (Note 1)	24 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	4,800 common shares (Note 1)	4,800 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2011 to November 5, 2024	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 1,706 Amount of capital incorporation: 853 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

Notes: 1. The number of shares underlying the subscription rights to shares (hereinafter the “Number of Granted Shares”) shall be 200 common shares. However, in the case that the Company conducts a stock split (including gratis allocation of common shares of the Company; the same shall apply hereinafter) or reverse stock split after the grant date, the Company shall adjust the Number of Granted Shares in accordance with the following formula:

Number of shares after adjustment = Number of shares before adjustment × Ratio of stock split or consolidation

In addition to the above, if there is an unavoidable circumstance that requires an adjustment to the Number of Granted Shares after the grant date, the Number of Granted Shares shall be adjusted to the extent reasonable.

2. The assets to be contributed upon exercise of the subscription rights to shares shall be in cash form, and the amount shall be ¥1, which is the amount to be paid in per share issued upon exercise of the subscription rights to shares (exercise price), multiplied by the Number of Granted Shares.

3. The issue price is the sum of the amount to be paid in upon exercise of each subscription right to shares (¥1 per share) and the fair value of each subscription right to shares (¥1,705 per share) at the grant date. The amount equivalent to the fair value of subscription rights to shares to be allocated to each Director or Executive Officer (*shikkou-yakuin*) shall be offset by the same amount of compensation claims as those rights held by the Director or Executive Officer (*shikkou-yakuin*) at the grant date.

4. (1) Persons to whom the subscription rights to shares are to be allocated (hereinafter “Share Subscription Right Holders”) may exercise their subscription rights to shares only during their terms of office as Directors or Executive Officers (*shikkou-yakuin*) of the Company and within five years after their retirement.

(2) If the Company’s consolidated return on equity (ROE; hereinafter the “Attained Performance”) for the final fiscal year that ends within a two-year period after the grant date (hereinafter the “Final Fiscal Year”) is less than 8.0% (hereinafter the “Target Performance”), Share Subscription Right Holders may only exercise the subscription rights to shares for a number calculated by multiplying the number of allocated rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the Attained Performance by the Target Performance).

(3) When Share Subscription Right Holders are those newly appointed as Directors or Executive Officers (*shikkou-yakuin*) on or after July 1, 2009, or when they retire from their positions as Directors or Executive Officers (*shikkou-yakuin*) on or before the last day of the Final Fiscal Year, the number of subscription rights to shares they may exercise shall be calculated by multiplying the adjusted figure described in (2) above by a term of office ratio (a figure representing the

ratio of days in office to the number of days in the period from April 1, 2009 through March 31, 2011).

(4) When the calculations described in (2) and (3) above result in numbers of exercisable subscription rights to shares including a fraction of a right (a figure less than one), this fractional right shall be discarded.

(5) When a Share Subscription Right Holder is recognized to have executed his/her official duties in an illegal or improper manner during his/her term of office, the Company may restrict the number of subscription rights to shares that he/she may exercise based on a resolution by the Board of Directors. In such cases, the Share Subscription Right Holder in question may not exercise the subscription rights to shares in excess of the restriction.

(6) When a Share Subscription Right Holder dies, his/her heirs may exercise the subscription rights to shares until a date three months after the day following the date of his/her death or until a date six months after the last day of the Final Fiscal Year, whichever is later.

(7) In addition to the provisions described in each of the previous notes, the exercise of the subscription rights to shares shall be undertaken in accordance with the conditions stipulated in the contracts for allocation of subscription rights to shares concluded between the Company and Share Subscription Right Holders.

5. In the event that the Company conducts a merger (limited to the case where the Company ceases to exist as a result of the merger), an absorption-type company split or an incorporation-type company split, or a share exchange or share transfer (hereinafter the “Reorganization Activity”), subscription rights to shares in stock companies specified under Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (hereinafter the “Reorganized Company”) shall be issued to the respective Share Subscription Right Holders who hold remaining subscription rights to shares as of the effective date of the Reorganization Activity (hereinafter the “Remaining Share Subscription Rights”) based on the following conditions in individual cases. In such a case, the Remaining Share Subscription Rights shall cease to exist, and the Reorganized Company shall newly issue subscription rights to shares. However, the foregoing shall be limited to cases where it is indicated in an absorption-type or incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that subscription rights to shares of the Reorganized Company are to be issued in accordance with the following conditions:

(1) Class of shares of the Reorganized Company underlying subscription rights to shares

Such shares shall be the Reorganized Company’s common shares.

(2) Number of shares of the Reorganized Company underlying subscription rights to shares

The number of shares shall be determined in the same manner as the proviso in the Note 1 above, taking into account the conditions, etc. of the Reorganization Activity.

(3) Amount of assets to be contributed upon exercise of subscription rights to shares

The amount shall be calculated by multiplying ¥1 per share by the Number of Granted Shares.

(4) Period during which subscription rights to shares may be exercised

The period shall be the same as the exercise period of the Remaining Share Subscription Rights.

(5) Restrictions on the acquisition of subscription rights to shares by transfer

The transfer of the subscription rights to shares shall require the approval of the Reorganized Company.

(6) Other conditions shall be determined in accordance with the conditions for the Remaining Share Subscription Rights.

ii) 2nd Series Subscription Rights to Shares (share-based payment stock option)

Resolution as of September 13, 2010 (Title and number of grantees: 4 Executive Officers (*shikkou-yakuin*) of the Company)		
	As of December 31, 2022	As of the month end prior to the filing date (February 28, 2023)
Number of subscription rights to shares (units)	3 (Note 1)	3 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	600 common shares (Note 1)	600 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2011 to November 5, 2024	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 1,716 Amount of capital incorporation: 858 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

Notes: 1. The number of shares underlying the subscription rights to shares (hereinafter the "Number of Granted Shares") shall be 200 common shares.

However, in the case that the Company conducts a stock split (including gratis allocation of common shares of the Company; the same shall apply hereinafter) or stock consolidation after the grant date, the Company shall adjust the Number of Granted Shares in accordance with the following formula:

Number of shares after adjustment = Number of shares before adjustment × Ratio of stock split or consolidation

In addition to the above, if there is an unavoidable circumstance that requires an adjustment to the Number of Granted Shares after the grant date, the Number of Granted Shares shall be adjusted to the extent reasonable.

2. The assets to be contributed upon exercise of the subscription rights to shares shall be in cash form, and the amount shall be ¥1, which is the amount to be paid in per share issued upon exercise of the subscription rights to shares (exercise price), multiplied by the Number of Granted Shares.

3. The issue price is the sum of the amount to be paid in upon exercise of each subscription right to shares (¥1 per share) and the fair value of each subscription right to shares (¥1,715 per share) at the grant date. The amount equivalent to the fair value of subscription rights to shares to be allocated to each Executive Officer (*shikkou-yakuin*) shall be offset by the same amount of compensation claims as those rights held by the Executive Officer (*shikkou-yakuin*) at the grant date.

4. (1) Persons to whom the subscription rights to shares are to be allocated (hereinafter "Share Subscription Right Holders") may exercise their subscription rights to shares only during their terms of office as Executive Officers (*shikkou-yakuin*) of the Company and within five years after their retirement.

(2) If the Company's consolidated return on equity (ROE; hereinafter the "Attained Performance") for the final fiscal year that ends within a one-year period after the grant date (hereinafter the "Final Fiscal Year") is less than 8.0% (hereinafter the "Target Performance"), Share Subscription Right Holders may only exercise the subscription rights to shares for a number calculated by multiplying the number of allocated rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the Attained Performance by the Target Performance).

(3) When Share Subscription Right Holders are those newly appointed as Executive Officers (*shikkou-yakuin*) on or after July 1, 2010, or when they retire from their position as Executive Officers (*shikkou-yakuin*) on or before the last day of the Final Fiscal Year, the number of subscription rights to shares they may exercise shall be calculated by multiplying the adjusted figure described in (2) above by a term of office ratio (a figure representing the ratio of days in office to the number of days in the period from April 1, 2010 through March 31, 2011).

(4) When the calculations described in (2) and (3) above result in numbers of exercisable subscription rights to shares including a fraction of a right (a figure less than one), this fractional right shall be discarded.

(5) When a Share Subscription Right Holder is recognized to have executed his/her official duties in an illegal or improper manner during his/her term of office, the Company may restrict the number of subscription rights to shares that he/she may exercise based on a resolution by the Board of Directors. In such cases, the Share Subscription Right Holder in question may not exercise the subscription rights to shares in excess of the restriction.

(6) When a Share Subscription Right Holder dies, his/her heirs may exercise the subscription rights to shares until a date three months after the day following the date of his/her death or until a date six months after the last day of the Final Fiscal Year, whichever is later.

5. In the event that the Company conducts a merger (limited to the case where the Company ceases to exist as a result of the merger), an absorption-type company split or an incorporation-type company split, or a share exchange or share transfer (hereinafter the “Reorganization Activity”), subscription rights to shares in stock companies specified under Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (hereinafter the “Reorganized Company”) shall be issued to the respective Share Subscription Right Holders who hold remaining subscription rights to shares as of the effective date of the Reorganization Activity (hereinafter the “Remaining Share Subscription Rights”) based on the following conditions in individual cases. In such a case, the Remaining Share Subscription Rights shall cease to exist, and the Reorganized Company shall newly issue subscription rights to shares. However, the foregoing shall be limited to cases where it is indicated in an absorption-type or incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that subscription rights to shares of the Reorganized Company are to be issued in accordance with the following conditions:

(1) Class of shares of the Reorganized Company underlying subscription rights to shares

Such shares shall be the Reorganized Company’s common shares.

(2) Number of shares of the Reorganized Company underlying subscription rights to shares

The number of shares shall be determined in the same manner as the proviso in the Note 1 above, taking into account the conditions, etc. of the Reorganization Activity.

(3) Amount of assets to be contributed upon exercise of subscription rights to shares

The amount shall be calculated by multiplying ¥1 per share by the Number of Granted Shares.

(4) Period during which subscription rights to shares may be exercised

The period shall be the same as the exercise period of the Remaining Share Subscription Rights.

(5) Restrictions on the acquisition of subscription rights to shares by transfer

The transfer of the subscription rights to shares shall require the approval of the Reorganized Company.

(6) Other conditions shall be determined in accordance with the conditions for the Remaining Share Subscription Rights.

iii) 3rd Series Subscription Rights to Shares (share-based payment stock option)

Resolution as of September 12, 2011 (Title and number of grantees: 8 Directors (excluding Outside Directors) and 23 Executive Officers (*shikkou-yakuin*) of the Company)		
	As of December 31, 2022	As of the month end prior to the filing date (February 28, 2023)
Number of subscription rights to shares (units)	252 (Note 1)	235 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	50,400 common shares (Note 1)	47,000 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2014 to June 30, 2026	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 1,226 Amount of capital incorporation: 613 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

Notes: 1. The number of shares underlying the subscription rights to shares (hereinafter the "Number of Granted Shares") shall be 200 common shares.

However, in the case that the Company conducts a stock split (including gratis allocation of common shares of the Company; the same shall apply hereinafter) or stock consolidation after the grant date, the Company shall adjust the Number of Granted Shares in accordance with the following formula:

Number of shares after adjustment = Number of shares before adjustment × Ratio of stock split or consolidation

In addition to the above, if there is an unavoidable circumstance that requires an adjustment to the Number of Granted Shares after the grant date, the Number of Granted Shares shall be adjusted to the extent reasonable.

2. The assets to be contributed upon exercise of the subscription rights to shares shall be in cash form, and the amount shall be ¥1, which is the amount to be paid in per share issued upon exercise of the subscription rights to shares (exercise price), multiplied by the Number of Granted Shares.

3. The issue price is the sum of the amount to be paid in upon exercise of each subscription right to shares (¥1 per share) and the fair value of each subscription right to shares (¥1,225 per share) at the grant date. The amount equivalent to the fair value of subscription rights to shares to be allocated to each Director or Executive Officer (*shikkou-yakuin*) shall be offset by the same amount of compensation claims as those rights held by the Director or Executive Officer (*shikkou-yakuin*) at the grant date.

4. (1) Persons to whom the subscription rights to shares are to be allocated (hereinafter "Share Subscription Right Holders") may exercise their subscription rights to shares only during their terms of office as Directors or Executive Officers (*shikkou-yakuin*) of the Company and within five years after their retirement.

(2) If the Company's consolidated return on invested capital (ROIC; hereinafter the "Attained Performance") for the final fiscal year that ends within a three-year period after the grant date (hereinafter the "Final Fiscal Year") reaches 8.0% (hereinafter the "Target Performance"), Share Subscription Right Holders may exercise all the allocated subscription rights to shares. On the other hand, if the Target Performance is not met, they may only exercise the subscription rights to shares for a number (a fraction less than one unit shall be discarded) calculated by multiplying the number of allocated rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the Attained Performance by the Target Performance).

(3) When a Share Subscription Right Holder is recognized to have executed his/her official duties in an illegal or improper

manner during his/her term of office, the Company may restrict the number of subscription rights to shares that he/she may exercise based on a resolution by the Board of Directors. In such cases, the Share Subscription Right Holder in question may not exercise the subscription rights to shares in excess of the restriction.

(4) When a Share Subscription Right Holder dies, his/her heirs may exercise the subscription rights to shares until a date three months after the day following the date of his/her death or until a date six months after the last day of the Final Fiscal Year, whichever is later.

5. In the event that the Company conducts a merger (limited to the case where the Company ceases to exist as a result of the merger), an absorption-type company split or an incorporation-type company split, or a share exchange or share transfer (hereinafter the "Reorganization Activity"), subscription rights to shares in stock companies specified under Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (hereinafter the "Reorganized Company") shall be issued to the respective Share Subscription Right Holders who hold remaining subscription rights to shares as of the effective date of the Reorganization Activity (hereinafter the "Remaining Share Subscription Rights") based on the following conditions in individual cases. In such a case, the Remaining Share Subscription Rights shall cease to exist, and the Reorganized Company shall newly issue subscription rights to shares. However, the foregoing shall be limited to cases where it is indicated in an absorption-type or incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that subscription rights to shares of the Reorganized Company are to be issued in accordance with the following conditions:

(1) Class of shares of the Reorganized Company underlying subscription rights to shares

Such shares shall be the Reorganized Company's common shares.

(2) Number of shares of the Reorganized Company underlying subscription rights to shares

The number of shares shall be determined in the same manner as the proviso in the Note 1 above, taking into account the conditions, etc. of the Reorganization Activity.

(3) Amount of assets to be contributed upon exercise of subscription rights to shares

The amount shall be calculated by multiplying ¥1 per share by the Number of Granted Shares.

(4) Period during which subscription rights to shares may be exercised

The period shall be the same as the exercise period of the Remaining Share Subscription Rights.

(5) Restrictions on the acquisition of subscription rights to shares by transfer

The transfer of the subscription rights to shares shall require the approval of the Reorganized Company.

(6) Other conditions shall be determined in accordance with the conditions for the Remaining Share Subscription Rights.

iv) 4th Series Subscription Rights to Shares (share-based payment stock option)

Resolution as of September 10, 2012 (Title and number of grantees: 4 Directors (excluding Independent Directors) and 4 Executive Officers (*shikkou-yakuin*) of the Company, and 10 officers including Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2022	As of the month end prior to the filing date (February 28, 2023)
Number of subscription rights to shares (units)	24 (Note 1)	24 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	4,800 common shares (Note 1)	4,800 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2014 to June 30, 2026	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 1,441 Amount of capital incorporation: 720.5 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

Notes: 1. The number of shares underlying the subscription rights to shares (hereinafter the “Number of Granted Shares”) shall be 200 common shares.

However, in the case that the Company conducts a stock split (including gratis allocation of common shares of the Company; the same shall apply hereinafter) or stock consolidation after the grant date, the Company shall adjust the Number of Granted Shares in accordance with the following formula:

Number of shares after adjustment = Number of shares before adjustment × Ratio of stock split or consolidation

In addition to the above, if there is an unavoidable circumstance that requires an adjustment to the Number of Granted Shares after the grant date, the Number of Granted Shares shall be adjusted to the extent reasonable.

2. The assets to be contributed upon exercise of the subscription rights to shares shall be in cash form, and the amount shall be ¥1, which is the amount to be paid in per share issued upon exercise of the subscription rights to shares (exercise price), multiplied by the Number of Granted Shares.

3. The issue price is the sum of the amount to be paid in upon exercise of each subscription right to shares (¥1 per share) and the fair value of each subscription right to shares (¥1,440 per share) at the grant date. The amount equivalent to the fair value of subscription rights to shares to be allocated to each Director or Executive Officer (*shikkou-yakuin*) of the Company or its subsidiary shall be offset by the same amount of compensation claims as those rights held by the Director or Executive Officer (*shikkou-yakuin*) at the grant date.

4. (1) Persons to whom the subscription rights to shares are to be allocated (hereinafter “Share Subscription Right Holders”) may exercise their subscription rights to shares only during their terms of office as Directors, Executive Officers (*shikkou-yaku*) or Executive Officers (*shikkou-yakuin*) of the Company or its subsidiaries and within five years after their retirement.

(2) If the Company’s consolidated return on invested capital (ROIC; hereinafter the “Attained Performance”) for the final fiscal year that ends within a two-year period after the grant date (hereinafter the “Final Fiscal Year”) reaches 8.0% (hereinafter the “Target Performance”), Share Subscription Right Holders may exercise all the allocated subscription rights to shares. On the other hand, if the Target Performance is not met, they may only exercise the subscription rights to shares for a number (a fraction less than one unit shall be discarded) calculated by multiplying the number of allocated rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the Attained Performance by the Target Performance).

(3) When a Share Subscription Right Holder is recognized to have executed his/her official duties in an illegal or improper

manner during his/her term of office, the Company may restrict the number of subscription rights to shares that he/she may exercise based on a resolution by the Board of Directors. In such cases, the Share Subscription Right Holder in question may not exercise the subscription rights to shares in excess of the restriction.

(4) When a Share Subscription Right Holder dies, his/her heirs may exercise the subscription rights to shares until a date three months after the day following the date of his/her death or until a date six months after the last day of the Final Fiscal Year, whichever is later.

5. In the event that the Company conducts a merger (limited to the case where the Company ceases to exist as a result of the merger), an absorption-type company split or an incorporation-type company split, or a share exchange or share transfer (hereinafter the "Reorganization Activity"), subscription rights to shares in stock companies specified under Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (hereinafter the "Reorganized Company") shall be issued to the respective Share Subscription Right Holders who hold remaining subscription rights to shares as of the effective date of the Reorganization Activity (hereinafter the "Remaining Share Subscription Rights") based on the following conditions in individual cases. In such a case, the Remaining Share Subscription Rights shall cease to exist, and the Reorganized Company shall newly issue subscription rights to shares. However, the foregoing shall be limited to cases where it is indicated in an absorption-type or incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that subscription rights to shares of the Reorganized Company are to be issued in accordance with the following conditions:

(1) Class of shares of the Reorganized Company underlying subscription rights to shares

Such shares shall be the Reorganized Company's common shares.

(2) Number of shares of the Reorganized Company underlying subscription rights to shares

The number of shares shall be determined in the same manner as the proviso in the Note 1 above, taking into account the conditions, etc. of the Reorganization Activity.

(3) Amount of assets to be contributed upon exercise of subscription rights to shares

The amount shall be calculated by multiplying ¥1 per share by the Number of Granted Shares.

(4) Period during which subscription rights to shares may be exercised

The period shall be the same as the exercise period of the Remaining Share Subscription Rights.

(5) Restrictions on the acquisition of subscription rights to shares by transfer

The transfer of the subscription rights to shares shall require the approval of the Reorganized Company.

(6) Other conditions shall be determined in accordance with the conditions for the Remaining Share Subscription Rights.

v) 5th Series Subscription Rights to Shares (share-based payment stock option)

Resolution as of September 9, 2013 (Title and number of grantees: 5 Directors (excluding Outside Directors) and 4 Executive Officers (*shikkou-yakuin*) of the Company, and 7 officers including Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2022	As of the month end prior to the filing date (February 28, 2023)
Number of subscription rights to shares (units)	32 (Note 1)	32 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	6,400 common shares (Note 1)	6,400 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2014 to June 30, 2026	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 2,601 Amount of capital incorporation: 1,300.5 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

Notes: 1. The number of shares underlying the subscription rights to shares (hereinafter the “Number of Granted Shares”) shall be 200 common shares.

However, in the case that the Company conducts a stock split (including gratis allocation of common shares of the Company; the same shall apply hereinafter) or stock consolidation after the grant date, the Company shall adjust the Number of Granted Shares in accordance with the following formula:

Number of shares after adjustment = Number of shares before adjustment × Ratio of stock split or consolidation

In addition to the above, if there is an unavoidable circumstance that requires an adjustment to the Number of Granted Shares after the grant date, the Number of Granted Shares shall be adjusted to the extent reasonable.

2. The assets to be contributed upon exercise of the subscription rights to shares shall be in cash form, and the amount shall be ¥1, which is the amount to be paid in per share issued upon exercise of the subscription rights to shares (exercise price), multiplied by the Number of Granted Shares.

3. The issue price is the sum of the amount to be paid in upon exercise of each subscription right to shares (¥1 per share) and the fair value of each subscription right to shares (¥2,600 per share) at the grant date. The amount equivalent to the fair value of subscription rights to shares to be allocated to each Director or Executive Officer (*shikkou-yakuin*) of the Company or its subsidiary shall be offset by the same amount of compensation claims as those rights held by the Director or Executive Officer (*shikkou-yakuin*) at the grant date.

4. (1) Persons to whom the subscription rights to shares are to be allocated (hereinafter “Share Subscription Right Holders”) may exercise their subscription rights to shares only during their terms of office as Directors or Executive Officers (*shikkou-yakuin*) of the Company or its subsidiaries and within five years after their retirement.

(2) If the Company’s consolidated return on invested capital (ROIC; hereinafter the “Attained Performance”) for the final fiscal year that ends within a one-year period after the grant date (hereinafter the “Final Fiscal Year”) reaches 8.0% (hereinafter the “Target Performance”), Share Subscription Right Holders may exercise all the allocated subscription rights to shares. On the other hand, if the Target Performance is not met, they may only exercise the subscription rights to shares for a number (a fraction less than one unit shall be discarded) calculated by multiplying the number of allocated rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the Attained Performance by the Target Performance).

(3) When a Share Subscription Right Holder is recognized to have executed his/her official duties in an illegal or improper manner during his/her term of office, the Company may restrict the number of subscription rights to shares that he/she

may exercise based on a resolution by the Board of Directors. In such cases, the Share Subscription Right Holder in question may not exercise the subscription rights to shares in excess of the restriction.

(4) When a Share Subscription Right Holder dies, his/her heirs may exercise the subscription rights to shares until a date three months after the day following the date of his/her death or until a date six months after the last day of the Final Fiscal Year, whichever is later.

5. In the event that the Company conducts a merger (limited to the case where the Company ceases to exist as a result of the merger), an absorption-type company split or an incorporation-type company split, or a share exchange or share transfer (hereinafter the “Reorganization Activity”), subscription rights to shares in stock companies specified under Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (hereinafter the “Reorganized Company”) shall be issued to the respective Share Subscription Right Holders who hold remaining subscription rights to shares as of the effective date of the Reorganization Activity (hereinafter the “Remaining Share Subscription Rights”) based on the following conditions in individual cases. In such a case, the Remaining Share Subscription Rights shall cease to exist, and the Reorganized Company shall newly issue subscription rights to shares. However, the foregoing shall be limited to cases where it is indicated in an absorption-type or incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that subscription rights to shares of the Reorganized Company are to be issued in accordance with the following conditions:

(1) Class of shares of the Reorganized Company underlying subscription rights to shares

Such shares shall be the Reorganized Company’s common shares.

(2) Number of shares of the Reorganized Company underlying subscription rights to shares

The number of shares shall be determined in the same manner as the proviso in the Note 1 above, taking into account the conditions, etc. of the Reorganization Activity.

(3) Amount of assets to be contributed upon exercise of subscription rights to shares

The amount shall be calculated by multiplying ¥1 per share by the Number of Granted Shares.

(4) Period during which subscription rights to shares may be exercised

The period shall be the same as the exercise period of the Remaining Share Subscription Rights.

(5) Restrictions on the acquisition of subscription rights to shares by transfer

The transfer of the subscription rights to shares shall require the approval of the Reorganized Company.

(6) Other conditions shall be determined in accordance with the conditions for the Remaining Share Subscription Rights.

vi) 6th Series Subscription Rights to Shares (share-based payment stock option)

Resolution as of September 9, 2014 (Title and number of grantees: 8 Directors (excluding Outside Directors) and 19 Executive Officers (*shikkou-yakuin*) of the Company, and 16 officers including Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2022	As of the month end prior to the filing date (February 28, 2023)
Number of subscription rights to shares (units)	372 (Note 1)	346 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	74,400 common shares (Note 1)	69,200 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2017 to June 30, 2029	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 3,066 Amount of capital incorporation: 1,533 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

Notes: 1. The number of shares underlying the subscription rights to shares (hereinafter the "Number of Granted Shares") shall be 200 common shares.

However, in the case that the Company conducts a stock split (including gratis allocation of common shares of the Company; the same shall apply hereinafter) or stock consolidation after the grant date, the Company shall adjust the Number of Granted Shares in accordance with the following formula:

Number of shares after adjustment = Number of shares before adjustment × Ratio of stock split or consolidation

In addition to the above, if there is an unavoidable circumstance that requires an adjustment to the Number of Granted Shares after the grant date, the Number of Granted Shares shall be adjusted to the extent reasonable.

2. The assets to be contributed upon exercise of the subscription rights to shares shall be in cash form, and the amount shall be ¥1, which is the amount to be paid in per share issued upon exercise of the subscription rights to shares (exercise price), multiplied by the Number of Granted Shares.

3. The issue price is the sum of the amount to be paid in upon exercise of each subscription right to shares (¥1 per share) and the fair value of each subscription right to shares (¥3,065 per share) at the grant date. The amount equivalent to the fair value of subscription rights to shares to be allocated to each Director or Executive Officer (*shikkou-yakuin*) of the Company or its subsidiary shall be offset by the same amount of compensation claims as those rights held by the Director or Executive Officer (*shikkou-yakuin*) at the grant date.

4. (1) Persons to whom the subscription rights to shares are to be allocated (hereinafter "Share Subscription Right Holders") may exercise their subscription rights to shares only during their terms of office as Directors or Executive Officers (*shikkou-yakuin*) of the Company or its subsidiaries and within five years after their retirement.

(2) If the Company's consolidated return on invested capital (ROIC; hereinafter the "Attained Performance") for the final fiscal year that ends within a three-year period after the grant date (hereinafter the "Final Fiscal Year") reaches 7.0% (hereinafter the "Target Performance"), Share Subscription Right Holders may exercise all the allocated subscription rights to shares. On the other hand, if the Target Performance is not met, they may not exercise the subscription rights to shares in excess of the number (hereinafter the "Performance Adjusted Upper Limit on Exercisable Rights") calculated by multiplying the number of allocated rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the Attained Performance by the Target Performance). However, an exception may be made when a Share Subscription Right Holder was also allocated other subscription rights to shares during the period from October 1, 2014 to the final day of the Final Fiscal Year, but this provision will be limited to share-based payment stock option that is similar to the subscription rights to shares (hereinafter the "Similar Subscription Rights to Shares"). Should the Performance Adjusted

Upper Limit on Exercisable Rights for Similar Subscription Rights to Shares allocated prior to the allocation of the subscription rights to shares include a fraction less than one, this fraction will be carried forward to the Performance Adjusted Upper Limit on Exercisable Rights for the subscription rights to shares. One is the unit of exercise of the subscription rights to shares and the fraction is not exercisable.

(3) When a Share Subscription Right Holder is recognized to have executed his/her official duties in an illegal or improper manner during his/her term of office, the Company may restrict the number of subscription rights to shares that he/she may exercise based on a resolution by the Board of Directors. In such cases, the Share Subscription Right Holder in question may not exercise the subscription rights to shares in excess of the restriction.

(4) When a Share Subscription Right Holder dies, his/her heirs may exercise the subscription rights to shares until a date three months after the day following the date of his/her death or until a date six months after the last day of the Final Fiscal Year, whichever is later.

5. In the event that the Company conducts a merger (limited to the case where the Company ceases to exist as a result of the merger), an absorption-type company split or an incorporation-type company split, or a share exchange or share transfer (hereinafter the “Reorganization Activity”), subscription rights to shares in stock companies specified under Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (hereinafter the “Reorganized Company”) shall be issued to the respective Share Subscription Right Holders who hold remaining subscription rights to shares as of the effective date of the Reorganization Activity (hereinafter the “Remaining Share Subscription Rights”) based on the following conditions in individual cases. In such a case, the Remaining Share Subscription Rights shall cease to exist, and the Reorganized Company shall newly issue subscription rights to shares. However, the foregoing shall be limited to cases where it is indicated in an absorption-type or incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that subscription rights to shares of the Reorganized Company are to be issued in accordance with the following conditions:

(1) Class of shares of the Reorganized Company underlying subscription rights to shares

Such shares shall be the Reorganized Company’s common shares.

(2) Number of shares of the Reorganized Company underlying subscription rights to shares

The number of shares shall be determined in the same manner as the proviso in the Note 1 above, taking into account the conditions, etc. of the Reorganization Activity.

(3) Amount of assets to be contributed upon exercise of subscription rights to shares

The amount shall be calculated by multiplying ¥1 per share by the Number of Granted Shares.

(4) Period during which subscription rights to shares may be exercised

The period shall be the same as the exercise period of the Remaining Share Subscription Rights.

(5) Restrictions on the acquisition of subscription rights to shares by transfer

The transfer of the subscription rights to shares shall require the approval of the Reorganized Company.

(6) Other conditions shall be determined in accordance with the conditions for the Remaining Share Subscription Rights.

vii) 7th Series Subscription Rights to Shares (share-based payment stock option)

Resolution as of September 8, 2015 (Title and number of grantees: 11 Non-executive Directors (including Outside Directors) and 12 Executive Officers (*shikkou-yaku*) and 3 Executive Officers (*shikkou-yakuin*) of the Company, and 5 officers including Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2022	As of the month end prior to the filing date (February 28, 2023)
Number of subscription rights to shares (units)	87 (Note 1)	87 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	17,400 common shares (Note 1)	17,400 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2017 to June 30, 2029	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 1,996 Amount of capital incorporation: 998 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

Notes: 1. The number of shares underlying the subscription rights to shares (hereinafter the “Number of Granted Shares”) shall be 200 common shares.

However, in the case that the Company conducts a stock split (including gratis allocation of common shares of the Company; the same shall apply hereinafter) or stock consolidation after the grant date, the Company shall adjust the Number of Granted Shares in accordance with the following formula:

Number of shares after adjustment = Number of shares before adjustment × Ratio of stock split or consolidation

In addition to the above, if there is an unavoidable circumstance that requires an adjustment to the Number of Granted Shares after the grant date, the Number of Granted Shares shall be adjusted to the extent reasonable.

2. The assets to be contributed upon exercise of the subscription rights to shares shall be in cash form, and the amount shall be ¥1, which is the amount to be paid in per share issued upon exercise of the subscription rights to shares (exercise price), multiplied by the Number of Granted Shares.

3. The issue price is the sum of the amount to be paid in upon exercise of each subscription right to shares (¥1 per share) and the fair value of each subscription right to shares (¥1,995 per share) at the grant date. The amount equivalent to the fair value of subscription rights to shares to be allocated to each Director, Executive Officer (*shikkou-yaku*) or Executive Officer (*shikkou-yakuin*) of the Company or its subsidiary shall be offset by the same amount of compensation claims as those rights held by the Director, Executive Officer (*shikkou-yaku*) or Executive Officer (*shikkou-yakuin*) at the grant date.

4. (1) Persons to whom the subscription rights to shares are to be allocated (hereinafter “Share Subscription Right Holders”) may exercise their subscription rights to shares only during their terms of office as Directors, Executive Officers (*shikkou-yaku*) or Executive Officers (*shikkou-yakuin*) of the Company or its subsidiaries and within five years after their retirement.

(2) When a Share Subscription Right Holder is recognized to have executed his/her official duties in an illegal or improper manner during his/her term of office, the Company may restrict the number of subscription rights to shares that he/she may exercise based on a resolution by the Board of Directors. In such cases, the Share Subscription Right Holder in question may not exercise the subscription rights to shares in excess of the restriction.

(3) When a Share Subscription Right Holder dies, his/her heirs may exercise the subscription rights to shares until a date three months after the day following the date of his/her death or until a date six months after the last day of the final fiscal year that ends within a two-year period from the grant date (hereinafter the “Final Fiscal Year”), whichever is later.

(4) The following conditions shall be stipulated in the allocation agreement to be concluded between the Company and those

granted the subscription rights to shares, depending on their attributes. One is the unit of exercise of the subscription rights to shares and the fraction is not exercisable.

(i) When those granted subscription rights to shares are Executive Officers (*shikkou-yaku*) or Executive Officers (*shikkou-yakuin*) of the Company or Directors or Executive Officers (*shikkou-yakuin*) of subsidiaries of the Company as of the grant date

(Attained performance conditions)

If the Company's consolidated return on invested capital (ROIC; hereinafter the "Attained Performance") for the Final Fiscal Year reaches 7.0% (hereinafter the "Target Performance"), Share Subscription Right Holders may exercise all the allocated subscription rights to shares. On the other hand, if the Target Performance is not met, they may not exercise the subscription rights to shares in excess of the number (hereinafter the "Performance Adjusted Upper Limit on Exercisable Rights") calculated by multiplying the number of allocated rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the Attained Performance by the Target Performance).
However, an exception may be made when a Share Subscription Right Holder was also allocated other subscription rights to shares during the period from October 1, 2014 to the final day of the Final Fiscal Year, but this provision will be limited to share-based payment stock option that is similar to the subscription rights to shares (hereinafter the "Similar Subscription Rights to Shares"). Should the Performance Adjusted Upper Limit on Exercisable Rights for Similar Subscription Rights to Shares allocated prior to the allocation of the subscription rights to shares include a fraction less than one, this fraction will be carried forward to the Performance Adjusted Upper Limit on Exercisable Rights for the subscription rights to shares. Other details are stipulated in the contracts for allocation of subscription rights to shares.

(ii) When those granted subscription rights to shares are Outside Directors of the Company as of the grant date

(Restrictions on exercise period)

Regardless of the exercise period, subscription rights to shares may not be exercisable until the day on which three years have elapsed after the grant date of subscription rights to shares.

(iii) When those granted subscription rights to shares are Non-executive Directors (excluding Outside Directors) of the Company as of the grant date

The restrictions on the exercise period described in (ii) above shall apply to all or part of the subscription rights to shares to be granted to Non-Executive Directors, and the attained performance conditions described in (i) above shall apply to the remainder thereof. Details are stipulated in the contracts for allocation of subscription rights to shares.

5. In the event that the Company conducts a merger (limited to the case where the Company ceases to exist as a result of the merger), an absorption-type company split or an incorporation-type company split, or a share exchange or share transfer (hereinafter the "Reorganization Activity"), subscription rights to shares in stock companies specified under Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (hereinafter the "Reorganized Company") shall be issued to the respective Share Subscription Right Holders who hold remaining subscription rights to shares as of the effective date of the Reorganization Activity (hereinafter the "Remaining Share Subscription Rights") based on the following conditions in individual cases. In such a case, the Remaining Share Subscription Rights shall cease to exist, and the Reorganized Company shall newly issue subscription rights to shares. However, the foregoing shall be limited to cases where it is indicated in an absorption-type or incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that subscription rights to shares of the Reorganized Company are to be issued in accordance with the following conditions:

(1) Class of shares of the Reorganized Company underlying subscription rights to shares

Such shares shall be the Reorganized Company’s common shares.

(2) Number of shares of the Reorganized Company underlying subscription rights to shares

The number of shares shall be determined in the same manner as the proviso in the Note 1 above, taking into account the conditions, etc. of the Reorganization Activity.

(3) Amount of assets to be contributed upon exercise of subscription rights to shares

The amount shall be calculated by multiplying ¥1 per share by the Number of Granted Shares.

(4) Period during which subscription rights to shares may be exercised

The period shall be the same as the exercise period of the Remaining Share Subscription Rights.

(5) Restrictions on the acquisition of subscription rights to shares by transfer

The transfer of the subscription rights to shares shall require the approval of the Reorganized Company.

(6) Other conditions shall be determined in accordance with the conditions for the Remaining Share Subscription Rights.

viii) 8th Series Subscription Rights to Shares (share-based payment stock option)

Resolution as of September 13, 2016 (Title and number of grantees: 11 Non-executive Directors (including Outside Directors), 4 Executive Officers (*shikkou-yaku*) and 1 Executive Officer (*shikkou-yakuin*) of the Company, and 5 officers including Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2022	As of the month end prior to the filing date (February 28, 2023)
Number of subscription rights to shares (units)	23 (Note 1)	19 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	4,600 common shares (Note 1)	3,800 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2017 to June 30, 2029	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 2,749 Amount of capital incorporation: 1,374.5 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

Notes: 1. The number of shares underlying the subscription rights to shares (hereinafter the "Number of Granted Shares") shall be 200 common shares.

However, in the case that the Company conducts a stock split (including gratis allocation of common shares of the Company; the same shall apply hereinafter) or reverse stock split* after the grant date, the Company shall adjust the Number of Granted Shares in accordance with the following formula:

Number of shares after adjustment = Number of shares before adjustment × Ratio of stock split or consolidation

In addition to the above, if there is an unavoidable circumstance that requires an adjustment to the Number of Granted Shares after the grant date, the Number of Granted Shares shall be adjusted to the extent reasonable.

*This does not include the stock consolidation of common shares that the Company has conducted with an effective date of October 1, 2016.

2. The assets to be contributed upon exercise of the subscription rights to shares shall be in cash form, and the amount shall be ¥1, which is the amount to be paid in per share issued upon exercise of the subscription rights to shares (exercise price), multiplied by the Number of Granted Shares.

3. The issue price is the sum of the amount to be paid in upon exercise of each subscription right to shares (¥1 per share) and the fair value of each subscription right to shares (¥2,748 per share) at the grant date. The amount equivalent to the fair value of subscription rights to shares to be allocated to each Director, Executive Officer (*shikkou-yaku*) or Executive Officer (*shikkou-yakuin*) of the Company or its subsidiary shall be offset by the same amount of compensation claims as those rights held by the Director, Executive Officer (*shikkou-yaku*) or Executive Officer (*shikkou-yakuin*) at the grant date.

4. (1) Persons to whom the subscription rights to shares are to be allocated (hereinafter "Share Subscription Right Holders") may exercise their subscription rights to shares only during their terms of office as Directors, Executive Officers (*shikkou-yaku*) or Executive Officers (*shikkou-yakuin*) of the Company or its subsidiaries and within five years after their retirement.

(2) When a Share Subscription Right Holder is recognized to have executed his/her official duties in an illegal or improper manner during his/her term of office, the Company may restrict the number of subscription rights to shares that he/she may exercise based on a resolution by the Board of Directors. In such cases, the Share Subscription Right Holder in question may not exercise the subscription rights to shares in excess of the restriction.

(3) When a Share Subscription Right Holder dies, his/her heirs may exercise the subscription rights to shares until a date three

months after the day following the date of his/her death or until a date six months after the last day of the final fiscal year that ends within a one-year period from the grant date (Final Fiscal Year), whichever is later.

(4) The following conditions shall be stipulated in the allocation agreement to be concluded between the Company and those granted the subscription rights to shares, depending on their attributes. One is the unit of exercise of the subscription rights to shares and the fraction is not exercisable.

(i) When those granted subscription rights to shares are Executive Officers (*shikkou-yaku*) or Executive Officers (*shikkou-yakuin*) of the Company or Directors or Executive Officers (*shikkou-yakuin*) of subsidiaries of the Company as of the grant date

(Attained performance conditions)

If the Company's consolidated return on invested capital (ROIC; hereinafter the "Attained Performance") for the Final Fiscal Year reaches 7.0% (hereinafter the "Target Performance"), Share Subscription Right Holders may exercise all the allocated subscription rights to shares. On the other hand, if the Target Performance is not met, they may not exercise the subscription rights to shares in excess of the number (hereinafter the "Performance Adjusted Upper Limit on Exercisable Rights") calculated by multiplying the number of allocated rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the Attained Performance by the Target Performance). However, an exception may be made when a Share Subscription Right Holder was also allocated other subscription rights to shares during the period from October 1, 2014 to the final day of the Final Fiscal Year, but this provision will be limited to share-based payment stock option that is similar to the subscription rights to shares (hereinafter the "Similar Subscription Rights to Shares"). Should the Performance Adjusted Upper Limit on Exercisable Rights for Similar Subscription Rights to Shares allocated prior to the allocation of the subscription rights to shares include a fraction less than one, this fraction will be carried forward to the Performance Adjusted Upper Limit on Exercisable Rights for the subscription rights to shares. Other details are stipulated in the contracts for allocation of subscription rights to shares.

(ii) When those granted subscription rights to shares are Outside Directors of the Company as of the grant date

(Restrictions on exercise period)

Regardless of the exercise period, subscription rights to shares may not be exercisable until the day on which three years have elapsed after the grant date of subscription rights to shares.

(iii) When those granted subscription rights to shares are Non-executive Directors (excluding Outside Directors) of the Company as of the grant date
The restrictions on the exercise period described in (ii) above shall apply to all or part of the subscription rights to shares to be granted to Non-Executive Directors, and the attained performance conditions described in (i) above shall apply to the remainder thereof. Details are stipulated in the contracts for allocation of subscription rights to shares.

5. In the event that the Company conducts a merger (limited to the case where the Company ceases to exist as a result of the merger), an absorption-type company split or an incorporation-type company split, or a share exchange or share transfer (hereinafter the "Reorganization Activity"), subscription rights to shares in stock companies specified under Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (hereinafter the "Reorganized Company") shall be issued to the respective Share Subscription Right Holders who hold remaining subscription rights to shares as of the effective date of the Reorganization Activity (hereinafter the "Remaining Share Subscription Rights") based on the following conditions in individual cases. In such a case, the Remaining Share Subscription Rights shall cease to exist, and the Reorganized Company shall newly issue subscription rights to shares. However, the foregoing shall be limited to cases where it is indicated in an absorption-type or incorporation-type merger agreement, absorption-type company split agreement,

incorporation-type company split plan, share exchange agreement or share transfer plan that subscription rights to shares of the Reorganized Company are to be issued in accordance with the following conditions:

(1) Class of shares of the Reorganized Company underlying subscription rights to shares

Such shares shall be the Reorganized Company's common shares.

(2) Number of shares of the Reorganized Company underlying subscription rights to shares

The number of shares shall be determined in the same manner as the proviso in the Note 1 above, taking into account the conditions, etc. of the Reorganization Activity.

(3) Amount of assets to be contributed upon exercise of subscription rights to shares

The amount shall be calculated by multiplying ¥1 per share by the Number of Granted Shares.

(4) Period during which subscription rights to shares may be exercised

The period shall be the same as the exercise period of the Remaining Share Subscription Rights.

(5) Restrictions on the acquisition of subscription rights to shares by transfer

The transfer of the subscription rights to shares shall require the approval of the Reorganized Company.

(6) Other conditions shall be determined in accordance with the conditions for the Remaining Share Subscription Rights.

ix) 9th Series Subscription Rights to Shares (share-based payment stock option)

Resolution as of September 11, 2017 (Title and number of grantees: 10 Non-executive Directors (including Outside Directors), 12 Executive Officers (*shikkou-yaku*) and 19 Advisory Officers of the Company, and 10 officers including Directors and Advisory Officers of subsidiaries)		
	As of December 31, 2022	As of the month end prior to the filing date (February 28, 2023)
Number of subscription rights to shares (units)	259 (Note 1)	252 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	25,900 common shares (Note 1)	25,200 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From April 1, 2020 to March 31, 2032	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 3,454 Amount of capital incorporation: 1,727 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

Notes: 1. The number of shares underlying the subscription rights to shares (hereinafter the "Number of Granted Shares") shall be 100 common shares.

However, in the case that the Company conducts a stock split (including gratis allocation of common shares of the Company; the same shall apply hereinafter) or reverse stock split after the grant date, the Company shall adjust the Number of Granted Shares in accordance with the following formula:

Number of shares after adjustment = Number of shares before adjustment × Ratio of stock split or consolidation

In addition to the above, if there is an unavoidable circumstance that requires an adjustment to the Number of Granted Shares after the grant date, the Number of Granted Shares shall be adjusted to the extent reasonable.

2. The assets to be contributed upon exercise of the subscription rights to shares shall be in cash form, and the amount shall be ¥1, which is the amount to be paid in per share issued upon exercise of the subscription rights to shares (exercise price), multiplied by the Number of Granted Shares.

3. The issue price is the sum of the amount to be paid in upon exercise of each subscription right to shares (¥1 per share) and the fair value of each subscription right to shares (¥3,453 per share) at the grant date. The amount equivalent to the fair value of subscription rights to shares to be allocated to each Director, Executive Officer (*shikkou-yaku*) or Advisory Officer of the Company or its subsidiary shall be offset by the same amount of compensation claims as those rights held by the Director, Executive Officer (*shikkou-yaku*) or Advisory Officer at the grant date.

4. (1) Persons to whom the subscription rights to shares are to be allocated (hereinafter "Share Subscription Right Holders") may exercise their subscription rights to shares only during their terms of office as Directors, Executive Officers (*shikkou-yaku*) or Advisory Officers of the Company or its subsidiaries and within five years after their retirement.

(2) When a Share Subscription Right Holder is recognized to have executed his/her official duties in an illegal or improper manner during his/her term of office, the Company may restrict the number of subscription rights to shares that he/she may exercise based on a resolution by the Board of Directors. In such cases, the Share Subscription Right Holder in question may not exercise the subscription rights to shares in excess of the restriction.

(3) When a Share Subscription Right Holder dies, his/her heirs may exercise the subscription rights to shares until a date three months after the day following the date of his/her death or until a date six months after the last day of the final fiscal year that ends within a three-year period from the grant date (Final Fiscal Year), whichever is later.

(4) The following conditions shall be stipulated in the allocation agreement to be concluded between the Company and those

granted the subscription rights to shares, depending on their attributes. One is the unit of exercise of the subscription rights to shares and the fraction is not exercisable.

(i) When those granted subscription rights to shares are Executive Officers (*shikkou-yaku*) or Advisory Officers of the Company, or Directors or Advisory Officers of subsidiaries of the Company as of the grant date

(Attained performance conditions)

If the Company's consolidated return on invested capital (ROIC; hereinafter the "Attained Performance") for the Final Fiscal Year reaches 8.0% (hereinafter the "Target Performance"), Share Subscription Right Holders may exercise all the allocated subscription rights to shares. On the other hand, if the Target Performance is not met, they may not exercise the subscription rights to shares in excess of the number (hereinafter the "Performance Adjusted Upper Limit on Exercisable Rights") calculated by multiplying the number of allocated rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the Attained Performance by the Target Performance). However, an exception may be made when a Share Subscription Right Holder was also allocated other subscription rights to shares during the period from October 1, 2017 to the final day of the Final Fiscal Year, but this provision will be limited to share-based payment stock option that is similar to the subscription rights to shares (hereinafter the "Similar Subscription Rights to Shares"). Should the Performance Adjusted Upper Limit on Exercisable Rights for Similar Subscription Rights to Shares allocated prior to the allocation of the subscription rights to shares include a fraction less than one, this fraction will be carried forward to the Performance Adjusted Upper Limit on Exercisable Rights for the subscription rights to shares. Other details are stipulated in the contracts for allocation of subscription rights to shares.

(ii) When those granted subscription rights to shares are Outside Directors of the Company as of the grant date

(Restrictions on exercise period)

Regardless of the exercise period, subscription rights to shares may not be exercisable until the day on which three years have elapsed after the grant date of subscription rights to shares.

(iii) When those granted subscription rights to shares are Non-executive Directors (excluding Outside Directors) of the Company as of the grant date

The restrictions on the exercise period described in (ii) above shall apply to all or part of the subscription rights to shares to be granted to Non-Executive Directors, and the attained performance conditions described in (i) above shall apply to the remainder thereof. Details are stipulated in the contracts for allocation of subscription rights to shares.

5. In the event that the Company conducts a merger (limited to the case where the Company ceases to exist as a result of the merger), an absorption-type company split or an incorporation-type company split, or a share exchange or share transfer (hereinafter the "Reorganization Activity"), subscription rights to shares in stock companies specified under Article 236, Paragraph 1, Item 8 (a) through (e) of the Companies Act (hereinafter the "Reorganized Company") shall be issued to the respective Share Subscription Right Holders who hold remaining subscription rights to shares as of the effective date of the Reorganization Activity (hereinafter the "Remaining Share Subscription Rights") based on the following conditions in individual cases. In such a case, the Remaining Share Subscription Rights shall cease to exist, and the Reorganized Company shall newly issue subscription rights to shares. However, the foregoing shall be limited to cases where it is indicated in an absorption-type or incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that subscription rights to shares of the Reorganized Company are to be issued in accordance with the following conditions:

(1) Class of shares of the Reorganized Company underlying subscription rights to shares

Such shares shall be the Reorganized Company’s common shares.

(2) Number of shares of the Reorganized Company underlying subscription rights to shares

The number of shares shall be determined in the same manner as the proviso in the Note 1 above, taking into account the conditions, etc. of the Reorganization Activity.

(3) Amount of assets to be contributed upon exercise of subscription rights to shares

The amount shall be calculated by multiplying ¥1 per share by the Number of Granted Shares.

(4) Period during which subscription rights to shares may be exercised

The period shall be the same as the exercise period of the Remaining Share Subscription Rights.

(5) Restrictions on the acquisition of subscription rights to shares by transfer

The transfer of the subscription rights to shares shall require the approval of the Reorganized Company.

(6) Other conditions shall be determined in accordance with the conditions for the Remaining Share Subscription Rights.

(ii) Details of Rights Plans

Not applicable.

(iii) Status of Other Subscription Rights to Shares

Not applicable.

(3) Status of Exercise of Bonds with Subscription Rights to Shares with Exercise Price Revision Clause, etc.

Not applicable.

(4) Changes in the Total Number of Shares Issued, Share Capital, etc.

Date	Changes in the total number of shares issued (Shares)	Balance of the total number of shares issued (Shares)	Changes in share capital (Millions of yen)	Balance of share capital (Millions of yen)	Changes in legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
From January 1, 2018 to May 7, 2018 (Note 1)	27,800	101,811,053	24	78,840	24	82,768
May 8, 2018 (Note 2)	104,600	101,915,653	194	79,034	194	82,962
From May 9, 2018 to December 31, 2018 (Note 1)	42,200	101,957,853	32	79,066	32	82,995
From January 1, 2019 to May 7, 2019 (Note 1)	37,800	101,995,653	37	79,104	37	83,032
May 8, 2019 (Note 3)	16,600	102,012,253	27	79,131	27	83,060
From May 9, 2019 to October 30, 2019 (Note 1)	16,800	102,029,053	22	79,154	22	83,082
October 31, 2019 (Note 4)	(6,900,000)	95,129,053	–	79,154	–	83,082
From November 1, 2019 to December 31, 2019 (Note 1)	800	95,129,853	0	79,155	0	83,083
From January 1, 2020 to May 11, 2020 (Note 1)	74,900	95,204,753	88	79,243	88	83,171
May 12, 2020 (Note 5)	88,500	95,293,253	97	79,340	97	83,269
May 12, 2020 (Note 6)	25,600	95,318,853	28	79,368	28	83,297
From May 13, 2020 to December 31, 2020 (Note 1)	72,600	95,391,453	82	79,451	82	83,379
From January 1, 2021 to May 11, 2021 (Note 1)	20,800	95,412,253	23	79,474	23	83,402
May 12, 2021 (Note 7)	40,680	95,452,933	101	79,576	101	83,504
From May 13, 2021 to December 31, 2021 (Note 1)	60,700	95,513,633	67	79,643	67	83,571
From January 1, 2022 to January 30, 2022 (Note 1)	5,600	95,519,233	8	79,651	8	83,579
January 31, 2022 (Note 8)	(3,513,400)	92,005,833	–	79,651	–	83,579
From February 1, 2022 to May 11, 2022 (Note 1)	16,200	92,022,033	18	79,670	18	83,598
May 12, 2022 (Note 9)	32,582	92,054,615	97	79,768	97	83,696
From May 13, 2022 to December 31, 2022 (Note 1)	31,400	92,086,015	35	79,804	35	83,732

Notes: 1. The increase was due to the exercise of subscription rights to shares (stock options).

2. The increase was due to the issuance of new shares as restricted stock compensation.

Issue price: ¥3,715

Amount of capital incorporation: ¥1,857.5

Allottees: 10 Directors, 12 Executive Officers (*shikkou-yaku*), and 22 employees of the Company, and 5 Directors and 4 employees of subsidiaries of the Company

3. The increase was due to the issuance of new shares as restricted stock compensation.

Issue price: ¥3,300

Amount of capital incorporation: ¥1,650
Allottees: 2 Directors, 4 Executive Officers (*shikkou-yaku*), and 9 employees of the Company, and 3 Directors of subsidiaries of the Company

4. The decrease was due to the retirement of treasury shares on October 31, 2019 by the resolution of the Board of Directors meeting held on October 15, 2019.
5. The increase was due to the issuance of new shares as restricted stock compensation.
Issue price: ¥2,198
Amount of capital incorporation: ¥1,099
Allottees: 9 Directors, 13 Executive Officers (*shikkou-yaku*), and 22 employees of the Company, and 8 Directors and 1 employee of subsidiaries of the Company
6. The increase was due to the issuance of new shares as performance-linked stock compensation.
Issue price: ¥2,198
Amount of capital incorporation: ¥1,099
Allottees: 3 Non-executive Directors, 15 Executive Officers (*shikkou-yaku*), and 30 employees of the Company, and 8 Directors and 2 employees of subsidiaries of the Company
7. The increase was due to the issuance of new shares as restricted stock compensation.
Issue price: ¥5,000
Amount of capital incorporation: ¥2,500
Allottees: 9 Directors, 13 Executive Officers, and 18 employees of the Company, and 8 Directors and 1 employee of subsidiaries of the Company
8. The decrease was due to the retirement of treasury shares on January 31, 2022 by the resolution of the Board of Directors meeting held on May 14, 2021.
9. The increase was due to the issuance of new shares as restricted stock compensation.
Issue price: ¥6,010
Amount of capital incorporation: ¥3,005
Allottees: 9 Directors, 14 Executive Officers (*shikkou-yaku*), and 14 employees of the Company, and 6 Directors and 3 employees of subsidiaries of the Company
10. During the period from January 1, 2023 to February 28, 2023, due to the exercise of subscription rights to shares (stock options), the total number of issued shares, the amount of share capital and the amount of legal capital surplus increased by 10 thousand shares, ¥12 million and ¥12 million, respectively.

(5) Shareholding by Shareholder Category

As of December 31, 2022

Category	Status of shares (number of shares constituting one unit: 100 shares)								Shares less than one unit (shares)
	National and local governments	Financial institutions	Financial instruments business operators	Other corporations	Foreign corporations, etc.		Individuals and others	Total	
					Non-individuals	Individuals			
Number of shareholders (persons)	–	87	57	360	395	44	20,544	21,487	–
Number of shares held (units)	–	293,805	73,642	25,300	409,331	688	116,467	919,233	162,715
Percentage of shareholdings (%)	–	31.96	8.01	2.75	44.53	0.07	12.67	100.00	–

Notes: 1. Out of 24,422 treasury shares, 244 units are included in “Individuals and others” and 22 shares are included in “Shares less than one unit.”
2. The number of shares in “Other corporations” includes four units in the name of Japan Securities Depository Center, Incorporated.

(6) Major Shareholders

As of December 31, 2022

Name	Address	Number of shares held (thousands of shares)	Percentage against total shares issued (excluding treasury shares) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	16,359	17.77
Ichigo Trust Pte. Ltd.(Standing proxy: Custody Department, Tokyo branch, The Hongkong and Shanghai Banking Corporation Limited)	1 North Bridge Road, 06-08 High Street Centre, Singapore 179094 (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	9,890	10.74
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12, Harumi, Chuo-ku, Tokyo	5,918	6.43
SMBC Nikko Securities Inc.	3-3-1 Marunouchi, Chiyoda-ku, Tokyo	2,702	2.94
BNYM AS AGT/CLTS NON TREATY JASDEC (Standing proxy: MUFG Bank, Ltd.)	240 Greenwich Street, New York City, New York 10286 U.S.A. (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	2,486	2.70
BBH (LUX) FOR FIDELITY FUNDS - SUSTAINABLE WATER AND WASTE POOL (Standing proxy: MUFG Bank, Ltd.)	2 A Rue Albert Borschette, Luxembourg, Luxembourg L-1246 (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	2,142	2.33
Japan Securities Finance Co., Ltd.	1-2-10 Kayabacho, Nihonbashi, Chuo-ku, Tokyo	1,527	1.66
Natixis Japan Securities Co. Ltd	ARK Hills South Tower, 1-4-5 Roppongi, Minato-ku, Tokyo	1,300	1.41
JP MORGAN CHASE BANK 385781 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank Ltd.)	25 Bank Street, Canary Wharf, London, E14 5JP, U.K. (Shinagawa Intercity Tower A, 2-15-1, Konan, Minato-ku, Tokyo)	1,217	1.32
STATE STREET BANK WEST CLIENT - TREATY 505234 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank Ltd.)	1776 Heri Tage Drive, North Quincy, MA 02171, U.S.A. (Shinagawa Intercity Tower A, 2-15-1, Konan, Minato-ku, Tokyo)	1,122	1.22
Total	–	44,668	48.52

1. The Company owns 24 thousand treasury shares, but they have been excluded from the major shareholders above.

2. In the change report pertaining to a report of possession of large volume available for public inspection as of November 8, 2022, it is stated that Nomura Asset Management Co., Ltd., a joint holder of Nomura Securities Co., Ltd., held 6,348 thousand shares (equivalent to a 6.89% holding ratio of share certificates, etc.) as of October 31, 2022. However, because the Company was unable to verify the number of shares substantially held by the aforementioned party as of December 31, 2022, it is not included in the aforementioned status of major shareholders.
The detail of the report is as follows:

Name	Address	Number of share certificates, etc. held (thousands of shares)	Holding ratio of share certificates, etc. (%)
Nomura Asset Management Co., Ltd.	2-2-1 Toyosu, Koto-ku, Tokyo	6,348	6.89

3. In the change report pertaining to a report of possession of large volume available for public inspection as of November 21, 2022, it is stated that Sumitomo Mitsui Trust Bank, Limited and its two joint holders collectively held 5,487 thousand shares (equivalent to a 5.96% holding ratio of share certificates, etc.) as of November 15, 2022. However, because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2022, they are not included in the aforementioned status of major shareholders.

The detail of the report is as follows:

Name	Address	Number of share certificates, etc. held (thousands of shares)	Holding ratio of share certificates, etc. (%)
Sumitomo Mitsui Trust Bank, Limited	1-4-1, Marunouchi, Chiyoda-ku, Tokyo	250	0.27
Sumitomo Mitsui Trust Asset Management Co., Ltd.	1-1-1 Shibakoen, Minato-ku, Tokyo	3,014	3.27
Nikko Asset Management Co., Ltd.	9-7-1 Akasaka, Minato-ku, Tokyo	2,222	2.41

4. In the amended report (report of possession of large volume, change report) pertaining to a report of possession of large volume available for public inspection as of July 7, 2021, it is stated that Mitsubishi UFJ Trust and Banking Corporation and its three joint holders collectively held 5,083 thousand shares (equivalent to a 5.34% holding ratio of share certificates, etc.) as of April 13, 2020. However, because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2022, they are not included in the aforementioned status of major shareholders.

The detail of the report is as follows:

Name	Address	Number of share certificates, etc. held (thousands of shares)	Holding ratio of share certificates, etc. (%)
Mitsubishi UFJ Trust and Banking Corporation	1-4-5 Marunouchi, Chiyoda-ku, Tokyo	3,373	3.55
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	1-12-1 Yurakucho, Chiyoda-ku, Tokyo	1,002	1.05
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	2-5-2 Marunouchi, Chiyoda-ku, Tokyo	382	0.40
MU Investments Co., Ltd.	2-3-11 Kandasurugadai, Chiyoda-ku, Tokyo	324	0.34

5. In a report of possession of large volume available for public inspection as of November 4, 2022, it is stated that BlackRock (Japan) Limited and its seven joint holders collectively held 5,160 thousand shares (equivalent to a 5.60% holding ratio of share certificates, etc.) as of October 31, 2022. However, because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2022, they are not included in the aforementioned status of major shareholders.

The detail of the report is as follows:

Name	Address	Number of share certificates, etc. held (thousands of shares)	Holding ratio of share certificates, etc. (%)
BlackRock (Japan) Limited	1-8-3 Marunouchi, Chiyoda-ku, Tokyo	1,719	1.87
BlackRock (Netherlands) BV	Amstelplein 1, 1096 HA, Amsterdam, Netherlands	291	0.32
BlackRock Fund Managers Limited	12 Throgmorton Avenue, London, U.K.	213	0.23
BlackRock Asset Management Canada Limited	161 Bay Street #2500, Toronto, Ontario, Canada	108	0.12
BlackRock Asset Management Ireland Limited	2 Ballsbridge Park, 1st Floor, Ballsbridge, Dublin, Ireland	749	0.81
BlackRock Fund Advisors	400 Howard Street, San Francisco, CA, U.S.A.	1,108	1.20
BlackRock Institutional Trust Company, N.A.	400 Howard Street, San Francisco, CA, U.S.A.	871	0.95
BlackRock Investment Management (UK) Limited	12 Throgmorton Avenue, London, U.K.	97	0.11

6. In a report of possession of large volume available for public inspection as of October 20, 2021, it is stated that Black Creek Investment Management, Inc. held 4,836 thousand shares (equivalent to a 5.06% holding ratio of share certificates, etc.) as of October 15, 2021. However, because the Company was unable to verify the number of shares substantially held by the aforementioned party as of December 31, 2022, it is not included in the aforementioned status of major shareholders.

The detail of the report is as follows:

Name	Address	Number of share certificates, etc. held (thousands of shares)	Holding ratio of share certificates, etc. (%)
Black Creak Investment Management, Inc.	123 Front Street West, Suite 1200, Toronto, Ontario, Canada M5J 2M2	4,836	5.06

7. In the change report pertaining to a report of possession of large volume available for public inspection as of October 3, 2019, it is stated that Newton Investment Management Limited and its five joint holders collectively held 4,224 thousand shares (equivalent to a 4.14% holding ratio of share certificates, etc.) as of September 30, 2019. However, because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2022, they are not included in the aforementioned status of major shareholders.

The detail of the report is as follows:

Name	Address	Number of share certificates, etc. held (thousands of shares)	Holding ratio of share certificates, etc. (%)
Newton Investment Management Limited	BNY Mellon Centre 160 Queen Victoria Street, London, EC4V 4LA, U.K.	3,070	3.01
BNY Mellon Investment Adviser, Inc.	240 Greenwich Street, New York City, New York 10286, U.S.A.	415	0.41
BNY Mellon Securities Corporation	240 Greenwich Street, New York City, New York 10286, U.S.A.	252	0.25
The Bank of New York Mellon	240 Greenwich Street, New York City, New York 10286, U.S.A.	151	0.15
BNY Mellon, N.A.	One Mellon Center, 500 Grant Street, Pittsburgh, Pennsylvania 15258, U.S.A.	146	0.14
Mellon Investments Corporation	BNY Mellon Center, 1 Boston Place, Boston, MA 02108, U.S.A.	187	0.18

8. In the change report pertaining to a report of possession of large volume available for public inspection as of February 5, 2021, it is stated that Silchester International Investors LLP held 3,907 thousand shares (equivalent to a 4.10% holding ratio of share certificates, etc.) as of February 12, 2021. However, because the Company was unable to verify the number of shares substantially held by the aforementioned party as of December 31, 2022, it is not included in the aforementioned status of major shareholders.

The detail of the report is as follows:

Name	Address	Number of share certificates, etc. held (thousands of shares)	Holding ratio of share certificates, etc. (%)
Silchester International Investors LLP	Time & Life Building, 1 Bruton Street, 5th Floor, London, W1J 6TL, U.K.	3,907	4.10

9. In the change report pertaining to a report of possession of large volume available for public inspection as of December 22, 2021, it is stated that Asset Management One Co., Ltd., a joint holder of Mizuho Securities Co., Ltd., held 3,663 thousand shares (equivalent to a 3.84% holding ratio of share certificates, etc.) as of December 15, 2021. However, because the Company was unable to verify the number of shares substantially held by the aforementioned party as of December 31, 2022, it is not included in the aforementioned status of major shareholders.

The detail of the report is as follows:

Name	Address	Number of share certificates, etc. held (thousands of shares)	Holding ratio of share certificates, etc. (%)
Asset Management One Co., Ltd.	1-8-2 Marunouchi, Chiyoda-ku, Tokyo	3,663	3.84

(7) Voting Rights

(i) Shares Issued

As of December 31, 2022

Category	Number of shares (shares)	Number of voting rights (units)	Description
Shares with no voting rights	–	–	–
Shares with restricted voting rights (treasury shares, etc.)	–	–	–
Shares with restricted voting rights (other)	–	–	–
Shares with full voting rights (treasury shares, etc.)	(Treasury shares) Common shares 24,400	–	Standard shares of the Company with no restrictions on rights
Shares with full voting rights (other)	Common shares 91,898,900	918,989	Same as above
Shares of less than one unit	Common shares 162,715	–	Same as above
Total number of shares issued	92,086,015	–	–
Voting rights held by all shareholders	–	918,989	–

Notes: 1. "Shares with full voting rights (other)" includes 400 shares in the name of Japan Securities Depository Center, Incorporated. "Number of voting rights" includes four units of voting rights related to shares with full voting rights in the name of Japan Securities Depository Center, Incorporated.

2. Common shares in the "Share less than one unit" section include 22 treasury shares held by the Company.

(ii) Treasury Shares

As of December 31, 2022

Name of shareholder	Address of shareholder	Number of shares held in own name (shares)	Number of shares held in others' names (shares)	Total number of shares held (shares)	Percentage against total shares issued (%)
(Treasury shares) EBARA CORPORATION	11-1, Haneda Asahi-cho, Ota-ku, Tokyo	24,400	–	24,400	3.70
Total	–	24,400	–	24,400	3.70

2. Acquisition of Treasury Shares

Class of Shares:

Acquisition of common shares under Article 155, Items 7 and 13 of the Companies Act

(1) Acquisition by Resolution of General Meeting of Shareholders

Not applicable.

(2) Acquisition by Resolution of Board of Directors

Not applicable.

(3) Acquisition Not Based on Resolutions of General Meeting of Shareholders or Board of Directors

Acquisition in accordance with Article 155, Item 7 of the Companies Act

Position	Number of shares (shares)	Total value (yen)
Treasury shares acquired during the fiscal year ended December 31, 2022	1,660	8,995,100
Treasury shares acquired during the period from January 1, 2023 until the filing date of this report	247	1,256,200

Note: The number of treasury shares acquired during the period from January 1, 2023 until the filing date of this report does not include shares less than one unit purchased during the period from March 1, 2023 to the filing date of this annual securities report.

Acquisition in accordance with Article 155, Item 13 of the Companies Act

Position	Number of shares (shares)	Total value (yen)
Treasury shares acquired during the fiscal year ended December 31, 2022	149	–
Treasury shares acquired during the period from January 1, 2023 until the filing date of this report	–	–

Note: The shares were acquired without compensation under the restricted stock compensation scheme.

(4) Disposal of Acquired Treasury Shares and Number of Treasury Shares Held

Position	Fiscal year ended December 31, 2022		From January 1, 2023 until the filing date of this report	
	Number of shares (shares)	Total amount of disposal (yen)	Number of shares (shares)	Total amount of disposal (yen)
Acquired treasury shares for which subscribers were solicited	–	–	–	–
Acquired treasury shares that were cancelled	3,513,400	19,903,094,794	–	–
Acquired treasury shares that were transferred for merger, share exchange, share issuance or company split	–	–	–	–
Other (sale of shares in response to additional purchase requests from shareholders holding shares less than one unit)	60	373,200	–	–
Treasury shares held	24,422	–	24,669	–

Note: The number of treasury shares held during the period from January 1, 2023 until the filing date of this report does not include shares less than one unit purchased or sold during the period from March 1, 2023 to the filing date of this annual securities report.

3. Dividend Policy

The Company regards the return of its profits to its shareholders as one of its most important management policies and has set a policy of linking shareholder returns to business performance for the relevant fiscal year, with a target consolidated dividend payout ratio of 35% or more. We will also flexibly implement the acquisition of treasury shares.

The Company has stipulated in its Articles of Incorporation that dividends of surplus may be determined by resolution of the Board of Directors, and that the Company may pay dividends twice a year, one interim and one year-end, with June 30 and December 31 as the record dates each year, and may also set other record dates.

Internal reserves are used as a source of funds for investments aimed at enhancing competitiveness and efficiency.

Dividends of surplus for the fiscal year ended December 31, 2022 were as follows:

Resolution date	Total amount of dividends (millions of yen)	Dividends per share (yen)
August 12, 2022 Board of Directors Meeting	7,823	85.00
March 29, 2023 Ordinary General Meeting of Shareholders	9,942	108.00

4. Corporate Governance

(1) Overview of Corporate Governance

Basic views on corporate governance

The Company has established the “EBARA Way,” composed of its “Founding Spirit,” “Corporate Philosophy” and the “EBARA Group CSR Policy” as the Group’s identity and set of values to be shared across the Group. Under the EBARA Way, the Company upholds the enhancement of corporate value through sustainable business development and sharing the results with various stakeholders including shareholders as its most important management objectives. To achieve such objectives, the Company constantly seeks the best possible corporate governance and strives toward its further enhancement.

EBARA Way

- Founding Spirit: The spirit of “Netsu to Makoto” (meaning “passion and dedication”), which values passionate and dedicated hearts that bring forth originality and ingenuity
- Corporate Philosophy: We contribute to society through high-quality technologies and services relating to water, air and the environment.
- EBARA Group CSR Policy: The Company’s basic stance for the purpose of clarifying and practicing the Group’s social responsibility

The Company has also established the “EBARA Corporate Governance Basic Policy,” and is committed to enhancing corporate governance based on the following basic views:

1) The Company respects shareholders’ rights, and is engaged in establishing an environment which enables shareholders to appropriately and effectively exercise their rights and ensures equality among shareholders. In addition, the Company establishes the IR Basic Policy and exchanges constructive dialogues with shareholders and investors to facilitate the sustainable growth and medium- to long-term enhancement of corporate value.
2) The Company strives to co-create values with various stakeholders, including shareholders, customers, business partners, creditors, employees and local communities in an appropriate manner.
3) The Company strives to ensure management transparency through appropriate disclosure of its corporate information.
4) The Company has developed a governance system in which Independent Directors* play important roles, and that is centered on Independent Directors and Non-executive Inside Directors. The Company has adopted the organizational form of a “Company with Three Board Committees” with the Nomination Committee, the Compensation Committee and the Audit Committee as statutory committees under the Board of Directors, to achieve clear separation between supervision and business execution in management.
5) The Company clearly stipulates expected roles and required qualifications and competencies for each Director, and strives to enhance effectiveness of the Board of Directors, etc. by utilizing them for selection of candidates and training for the Directors, etc.

* Independent Directors: The Company’s Directors who satisfy its Independence Standards, and are registered as independent directors with the Tokyo Stock Exchange. All the Company’s Outside Directors are Independent Directors.

The EBARA Corporate Governance Basic Policy is posted on the Company’s website below.
https://www.ebara.co.jp/en/ir/governance/information/Basic-Policy-and-Framework.html

(i) Corporate Governance System

i) Overview of Corporate Governance System

Structure of organization

The Company has selected the organizational form of a “Company with Three Board Committees” in accordance with the Companies Act.

<Supervisory>

Board of Directors

The Board of Directors shall make its best effort to realize the mission it has been entrusted by the shareholders to “continuously improve corporate value” while giving the greatest consideration possible within reasonable extent to the positions of all stakeholders. The Board of Directors establishes the Basic Management Policy for the long-term business environment so that the Group can enhance its corporate value. To achieve this goal, the Board of Directors strives to improve its social and environmental values through the sophisticated ESG-based management and continuous contribution to solving social issues, including SDGs, through its business. For the same reason, the Board of Directors also makes best efforts to improve its economic value by the ROIC-based management and portfolio-based management at the same time. In addition to the perspective of establishing an internal control environment for preventing scandals, etc., (i.e., defensive leadership), the Board of Directors exerts leadership from the perspective of establishing an environment enabling management to boldly face challenges to prevent the loss of business opportunities (i.e., offensive leadership).

The Board of Directors has adopted the organizational form of a "Company with Three Board Committees," whereby the authority and responsibility for the execution of business may be delegated to Executive Officers, to achieve clear separation between supervision and business execution in management. The number of Directors who concurrently serve as Executive Officers is kept to a minimum. Non-executive Inside Directors (i.e., Independent Directors and the Company's Inside Directors who do not concurrently serve as Executive Officers) are effectively used. To ensure the independence and objectivity of the Nomination, Audit, and Compensation Committees, which form the cornerstone of corporate governance, they shall be composed solely of Non-executive Directors, and the majority of the members of each committee shall be Independent Directors, and the Chairperson of each committee shall also be an Independent Director in principle. From this perspective, the Board of Directors shall be composed of at least a majority of Independent Directors.

As of March 30, 2023, the Board of Directors comprises eleven (11) Directors, eight (8) of whom are Independent Directors (including three (3) females) with an Independent Director serving as Chairman of the Board of Directors.

The Board of Directors has established the Board of Directors' Rules, and ensures a system to comply with laws and regulations and the Articles of Incorporation to operate itself. The Board of Directors regularly holds meetings every month and has extraordinary meetings when necessary.

Nomination Committee

The Nomination Committee is primarily responsible for preparing proposals for the General Meeting of Shareholders with regard to the election and dismissal of Directors; making recommendations to the Board of Directors with regard to the election and dismissal of President & REO, the election and dismissal of Executive Officers, appointment and dismissal of Directors with special titles, appointment and dismissal of the Chairman of the Board of Directors and a Non-executive Inside Director to assist the Chairman and the appointment and dismissal of members and the Chairperson of each of the Nomination Committee, Compensation Committee, and Audit Committee; and establishing a policy for election and dismissal and a succession plan for the President & REO. The Nomination Committee shall be composed solely of Non-executive Directors, and the majority of members shall be Independent Directors, and the Chairperson shall also be an Independent Director in principle. The Chairperson of the Nomination Committee shall be determined by the Board of Directors.

As of March 30, 2023, the Nomination Committee comprises three (3) Independent Directors (Hajime Sawabe, Hiroshi Oeda, and Teiji Koge) and one (1) Non-executive Inside Director (Toichi Maeda). Hajime Sawabe, an Independent Director, serves as Chairperson of the Nomination Committee.

Compensation Committee

The Compensation Committee strives to achieve sustainable growth and to increase corporate value over the medium- to long-term through compensation, by encouraging the Executive Officers to perform their duties in accordance with the management philosophy and management strategies and by fostering human resources and cultivating a culture by strongly motivating them to achieve challenging management targets with appropriately controlled risks, and by establishing a compensation system and standards that reflect the roles of the Directors defined in this Policy, including supervision of execution of their duties. The Compensation Committee shall be composed solely of Non-executive Directors, and the majority of members shall be Independent Directors, and the Chairperson shall also be an Independent Director in principle. The Chairperson of the Compensation Committee shall be determined by the Board of Directors.

As of March 30, 2023, the Compensation Committee comprises three (3) Independent Directors (Mie Fujimoto, Junko Nishiyama, and Takuya Shimamura). Mie Fujimoto, an Independent Director, serves as Chairperson of the Compensation Committee.

Audit Committee

The Audit Committee strives to establish a high-quality corporate governance system that responds to social trust by serving as a part of the Board of Directors' supervisory function and properly auditing execution of duties of the Executive Officers and Directors, and by considering the interests of various stakeholders from an enterprise and business group perspectives, collaborating with these stakeholders, realizing sound and sustainable growth and the creation of corporate value over the medium- to long-term. The Audit Committee sets out basic policies and plans of audits based on the progress of the development of internal control systems, including risk management, in an effort to carry out efficient and effective audits through close coordination with the Internal Audit Division. The Company establishes a supporting system for the Audit Committee to enable the Committee to appropriately fulfill its roles and functions. In order to ensure audit independence, the Audit Committee shall be composed solely of Non-executive Directors, and the majority of members shall be Independent Directors, and the Chairperson shall also be an Independent Director in principle. The Chairperson of the Audit Committee shall be determined by the Board of Directors. In addition, although the Companies Act does not require a full-time Audit Committee member, a Non-executive Inside Director of the Company is serving as a full-time member of the Audit Committee. The full-time Audit Committee member collects high-quality information within the Group through his sophisticated information gathering capabilities and shares the information with other Audit Committee members who are external Independent Directors. He also plays an important role in utilizing the internal control system and collaborating with Independent Auditors and departments in charge of internal control, etc., to ensure effective audits.

As of March 30, 2023, the Audit Committee comprises two (2) Independent Directors (Hisae Kitayama and Tsuyoshi Numagami) and one (1) Inside Director (Akihiko Nagamine). Hisae Kitayama, an Independent Director, serves as Chairperson of the Audit Committee. Members of the Audit Committee include, Hisae Kitayama, a certified public accountant, Tsuyoshi Numagami, who has held the position of Professor (Doctor of Commerce), Graduate School of Business Administration, Hitotsubashi University, and Akihiko Nagamine, who has held the position of Division Executive of Finance & Corporate Accounting Division of the Company. All of them have considerable knowledge of finance and accounting.

Executive Session

The Executive Session, comprising only Independent Directors, has been established as a venue for Independent Directors to freely discuss matters necessary to fulfill their responsibilities. The Lead Independent Director, who is elected by mutual voting, serves as Chairperson of the Session. As of March 30, 2023, Hajime Sawabe serves as Lead Independent Director.

<Business Execution>

Executive Officers

Executive Officers are elected by a resolution of the Board of Directors based on the proposal by the Nomination Committee. Executive Officers determine the execution of duties as delegated by the Board of Directors and perform such duties in line with the overall direction of management philosophy and medium- to long-term management plans as determined by the Board of Directors.

As of March 30, 2023, there are fourteen (14) Executive Officers. The Company is considering appointment of female Executive Officers in the future from the standpoint of diversity.

Meeting bodies for business execution

a. Management Meeting

The Management Meeting made up of all Executive Officers is in place as a business execution meeting structure for deliberation necessary for facilitating decision making by the President and Representative Executive Officer about important matters concerning the execution of business in management. Each Executive Officer actively expresses their opinions and discusses not only their own scope of duties delegated by the Board of Directors, but also all other matters for deliberation in the Management Meeting from the perspective of optimization for the Group as a whole, based on their own experience and knowledge. The Management Meeting is held every month.

b. Management Planning Committee

In order to specifically implement the medium-term management plan each year, a Management Planning Committee chaired by the President and Representative Executive Officer and made up of all Executive Officers has been established as a business execution meeting structure for deliberating, determining and following up on the budgets and management issue action plans of each organization every year. After phased deliberation for each business unit, the Management Planning Committee determines the budgets and management issue action plans to clarify the responsibility of divisions and promote management efficiency. The Management Planning Committee reviews the progress of the annual consolidated management plans on a quarterly basis.

c. Sustainability Committee

The Sustainability Committee has been established to discuss policies of businesses and supporting activities (environmental conservation in production activities, etc., labor practices, supply chain management, information management and disclosure, human rights protection, diversity promotion, etc.), and decide on KPIs and targets, as well as verify outcomes so that EBARA Group may contribute to building sustainable society/environment through business activities and continue to raise its corporate value. The Sustainability Committee is chaired by the President and Representative Executive Officer, and attended by all Executive Officers as its members, with outside experts participating in the committee meetings as advisors to provide the latest information on sustainability management and advice on activities. Furthermore, Independent Directors and Non-executive Inside Directors are encouraged to attend meetings of the Committee as observers for exhibiting supervisory functions contributing to the objectives of the Sustainability Committee, where they provide recommendations and the like on sustainability initiatives from an objective perspective as necessary. The Sustainability Committee reports its deliberations to the Board of Directors, and there is a system in place to enable the Board of Directors to exhibit supervisory functions by accurately grasping information. The Sustainability Committee is held regularly on a quarterly basis.

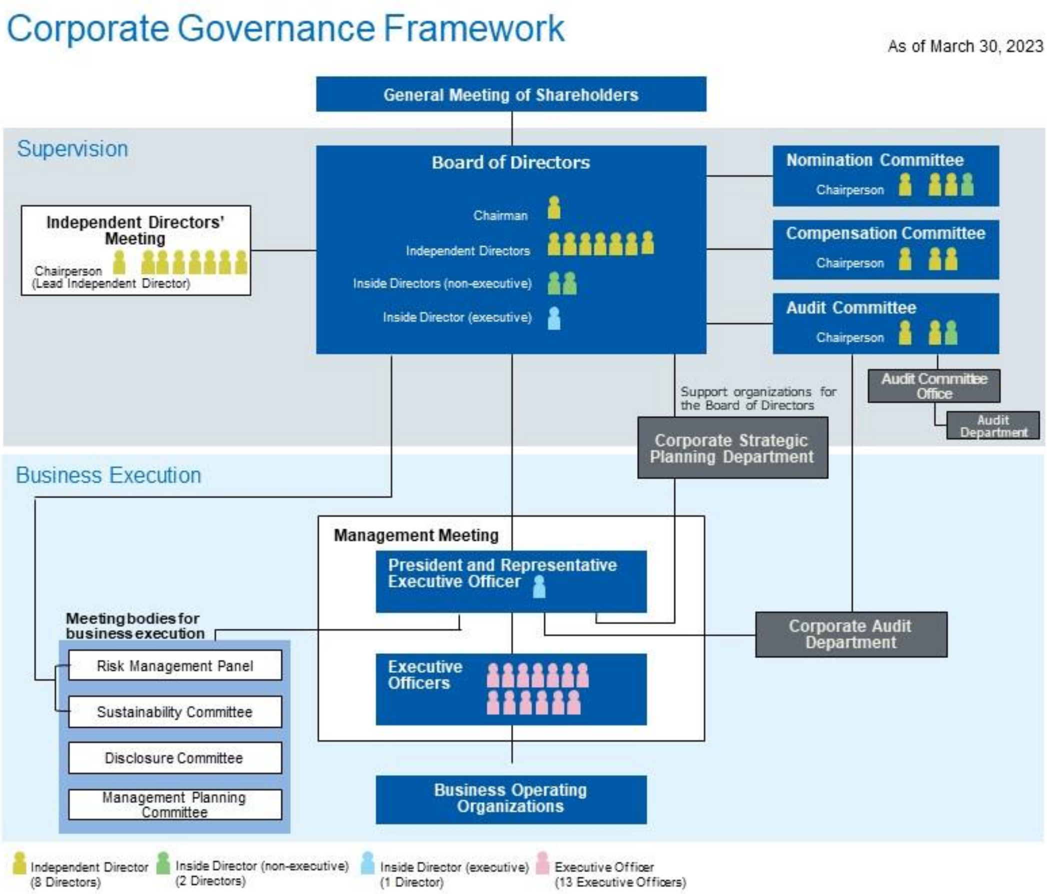
d. Risk Management Panel

The Risk Management Panel (“RMP”) is in place as a body responsible for coordinating risk management activities of the Group, while carrying out deliberation, guidance for improvement and support. The RMP is chaired by the President and Representative Executive Officer, and made up of all Executive Officers. Furthermore, Non-executive Inside Directors attend the panel as observers for exhibiting supervisory functions in risk management, and providing advice and the like as necessary. The RMP reports its deliberations to the Board of Directors, and the Board of Directors establishes a system enabling it to exhibit supervisory functions by accurately grasping information. In addition to a periodic meeting held every quarter, RMP meetings are held as required.

e. Disclosure Committee

The Disclosure Committee has been established as a companywide organization to provide fair, timely and appropriate disclosure of corporate information such as the occurrence of incidents, decisions and financial information pertaining to the Group as a whole. The Disclosure Committee collects without omission corporate information subject to determining whether or not to be disclosed and discusses whether to disclose the information, disclosed contents thereof and the timing of the disclosure, and obtains the approval of the President and Representative Executive Officer before disclosing such information.

The outline of the above corporate governance system is shown in the diagram below.



ii) Reasons for Adopting This System

The Company, in the interest of enhancing its corporate governance system, established the Nomination Committee and the Compensation Committee as voluntary committees while adding two Independent Directors in 2008, and further increased the number of Independent Directors to four since 2011, which accounts for one-third of the maximum number of Directors set forth in the Company's Articles of Incorporation. In June 2015, the Company adopted the new organizational form of a "Company with Three Board Committees," which has the Nomination Committee, the Compensation Committee and the Audit Committee as statutory committees to enhance its corporate governance from the aspects a. through c. described below. As a key vehicle for ensuring corporate governance, the new organizational form ensures the well-balanced assignment of roles and responsibilities among the Committees and a clear division of functions between the supervision of corporate management and the execution of business operations by appointing a majority of each Committee from Independent Directors.

a. Reinforce supervisory functions and enhance transparency in corporate management by the Board of Directors

With the Board of Directors consisting mainly of Non-executive Inside Directors and Independent Directors, we intend to reinforce the Board's function to supervise corporate management from the perspective of enhancing its independence, objectivity and transparency.

b. Expand authority of the executive organizations and enhance competitiveness regarding business execution

We intend to promote flexible and swift business management and establish an environment that will support the reinforcement of competitiveness and appropriate risk-taking in business execution by ensuring the clear division of roles and responsibilities between the Board of Directors and the organizations of business execution, and by delegating authority to the executive organization over an extensive range of business execution.

c. Establish a corporate governance framework that can be easily understood by global stakeholders

With a rise in the percentage of overseas sales and efforts by foreign shareholders to encourage a corporate governance framework that is more comprehensive from a global perspective, we intend to improve our corporate governance system, which separates supervisory and executive functions, so that it becomes more clearly understandable to global stakeholders.

iii) Outline of the Contents of the Liability Limitation Agreement

Pursuant to the provision of Article 427, Paragraph 1 of the Companies Act, the Company has entered into an agreement with eight Independent Directors, namely Hajime Sawabe, Hiroshi Oeda, Junko Nishiyama, Mie Fujimoto, Hisae Kitayama, Takuya Shimamura, Teiji Koge, and Tsuyoshi Numagami to limit their liability for damages as provided for in Article 423, Paragraph 1 of the same act. The limit of liability for damages under the agreement is the minimum liability amount stipulated under Article 425, Paragraph 1 of the Companies Act. However, such limitation of liability shall be permitted only when the performance of the duties that caused the liability is in good faith and without gross negligence.

iv) Overview of the Directors and Officers Liability Insurance Contract

a. Insured Parties

Directors, Executive Officers and Audit & Supervisory Board Members of the Company and its subsidiaries.

b. Overview of the Insurance Contract

The Company has entered into a directors and officers liability insurance contract with an insurance company as stipulated in Article 430-3, Paragraph 1 of the Companies Act. The contract will cover damages that may arise as a result of the insured parties being held liable for the execution of their duties, or receiving a claim pertaining to the pursuit of such liability. However, measures are taken to ensure that the appropriateness of the execution of duties by officers, etc. is not compromised by not covering any damage caused by the insured party’s own commitment of bribery, criminal acts or intentional illegal acts. All insurance premiums are paid by the Company.

v) Status of Development and Operation of Internal Control System

An overview of the content resolved by the Company in the Board of Directors as a system for ensuring appropriate operations (basic policy) and the state of operation of the system for fiscal year 2022 is provided below. Every year, Executive Officers perform self-evaluations on the establishment and operation of internal controls, and the areas that should be improved are reflected in the next year’s plan based on the results, and we will continue to make improvements in the future.

a. System to Ensure that the Execution of Duties by Executive Officers and Employees of the Company and Directors, Audit & Supervisory Board Members and Employees of Subsidiaries Complies with Laws and Regulations and the Articles of Incorporation

[Basic Approach]

The Company develops, maintains and operates systems to realize the EBARA Group CSR Policy and the EBARA Group Code of Conduct.

[Development and Operation]

1) The Company has established a division for promoting compliance, which supports the creation of systems for raising awareness of compliance and preventing misconduct and the establishment of a friendly and open work environment in the Company and its subsidiaries.
2) Disciplinary provisions on violations of the “EBARA Group Code of Conduct” and internal rules are stipulated in the service rules and employment regulations, etc., of the Company and its subsidiaries.
3) The Sustainability Committee, chaired by the President and Representative Executive Officer, deliberates on policies, strategies, targets and KPIs for activities that contribute to society, the environment and the Group’s sustainability, and confirms and reviews the results. The Committee also monitors the compliance status of the Company and its subsidiaries and gives instructions for corrective actions and improvements as appropriate. In fiscal year 2022, four

meetings of the committee were held in the fiscal year under review.

4) The Compliance Consultation Counter that can be used by the Company and domestic subsidiaries and the "Regulations for the Operation of the Compliance Consultation Counter" have been established to promptly address any reports or inquiries on violations of the "EBARA Group Business Ethics Framework," internal regulations, and laws, etc. in the Group. Furthermore, whistleblowing contacts via external law firms (Overseas EBARA Group hotlines) have been established for a total of 22 subsidiaries in 10 countries overseas.

5) The EBARA Group Compliance Network periodically holds meetings in accordance with the "Regulations for the Operation of the EBARA Group Compliance Network" to share compliance information between the Company and its subsidiaries. Overseas, Compliance Network meetings are periodically held for Chinese subsidiaries, and Network meetings with subsidiaries in Vietnam and Thailand were also held in fiscal year 2022.

6) The Company has established an Internal Audit Division, which conducts activities in accordance with the annual audit plan based on the "Internal Audit Rules." It is independent of the business execution departments and conducts audits and monitoring of the operations of the Company and its subsidiaries. We have our subsidiaries establish internal auditing and monitoring systems, and the status of implementation of these systems is confirmed by our Internal Audit Division. Co-sourcing audits using outside experts were conducted for overseas subsidiaries.

b. Systems for Storage and Management of Information concerning the Execution of Duties by Executive Officers

[Basic Approach]

The Company develops, maintains and operates a system for appropriately storing and managing information concerning the execution of duties by Executive Officers in accordance with laws, regulations, and internal rules.

[Development and Operation]

1) Information concerning the execution of duties by Executive Officers is appropriately stored and managed in accordance with "Information Security Basic Rules" and related regulations.

2) The "Five Principles of EBARA Group on the Handling of Important Information" stipulating measures for the prevention of information leaks and countermeasures to take in the event of a leak have been established in the "Information Security Basic Rules" of the Company and its subsidiaries.

3) For insider information (limited to material facts) related to insider trading regulations, the Critical Information Control Committee has been established to identify material facts for the entire EBARA Group and manage information up to disclosure.

4) The Company confirms the level of information management of the entire EBARA Group and conduct a survey of the actual situation in order to make improvements.

c. Systems for Reporting to the Company on Matters concerning the Execution of Duties by Directors of its Subsidiaries

[Basic Approach]

The Company develops, maintains and operates appropriate rules for reporting to the Company on matters concerning the execution of duties by Directors of its subsidiaries.

[Development and Operation]

1) Matters established throughout the EBARA Group and matters that the Company requires a review in advance or report to the Company after the fact are stipulated in the "Group Administration Basic Rules" and related regulations, and material matters pertaining to the execution of duties by Directors of subsidiaries are reported to the Company.

2) The "Crisis Management Rules" have been established in subsidiaries as a system for reporting to the Company in the event a crisis occurs or an event that may lead to a crisis occurs in subsidiaries, which are required to provide reports.

d. Regulations and Other Systems Related to Management of the Risk of Losses at the Company and Its Subsidiaries

[Basic Approach]

The Company has established policies on risk management in the Company and its subsidiaries as well as rules pertaining to their operation. The Company also develops, maintains and operates systems for implementing risk management.

[Development and Operation]

1) Authority responsibilities, and procedures are set out in the “Authority Rules,” etc., of the Company and its subsidiaries, whereby risk management is conducted.
2) Departments responsible for promoting risk management activities are in place, while policies and systems for risk management at the Company and its subsidiaries are set out under the “Risk Management Regulations,” whereby risk management activities are carried out.
3) The Risk Management Panel (hereinafter referred to as “RMP”) for the overall Group is in place as a body responsible for coordinating risk management activities while carrying out deliberation, guidance for improvement, and support. The RMP is chaired by the President and Representative Executive Officer and made up of all Executive Officers. In addition to quarterly meetings, meetings are held as required. In fiscal 2022, a total of 10 meetings were held.
4) With regard to the spread of the new coronavirus infection, we have set up a task force in accordance with the regulations and are continuing activities such as collecting information and deploying countermeasures to the EBARA Group.
5) The Company continues to strengthen the information security management system of the entire EBARA Group in preparation for cyber attacks from outside.

e. Systems to Ensure the Efficient Execution of Duties by Executive Officers of the Company and by Directors of Its Subsidiaries

[Basic Approach]

1) The Company clarifies the division of duties in the business execution functions of Executive Officers of the Company and Directors of its subsidiaries.
2) The Company develops, maintains, and operates systems to enable efficient execution of duties by the Company’s Executive Officers and Directors of its subsidiaries through the formulation of basic management policies and the monitoring of their progress.

[Development and Operation]

1) The Board of Directors of the Company entrusts the authority and responsibility for the execution of business to Executive Officers and ensures the efficient execution of duties by Executive Officers by supervising the execution of duties by Executive Officers.
2) The administrative authority of Executive Officers of the Company and Directors of its subsidiaries is set out in the “Regulations on the Division of Duties” of the Company and its subsidiaries.
3) The Company’s Board of Directors formulates basic management policies, and these policies are reflected in the annual management plans of the Company and its subsidiaries. As for return on invested capital (ROIC), the most important management indicator (KPI), we confirm the progress at KPI monitoring meetings.
4) Executive Officers of the Company review the progress of annual management plans and measures for their achievement on a quarterly basis in the Management Planning Committee.
5) The Management Meeting made up of all Executive Officers is in place as a meeting structure for deliberation necessary for facilitating prompt decision making by the President and Representative Executive Officer. The Management Meeting is held once every month.

f. Systems for Shutting Out Anti-social Elements

[Basic Approach]

The Company establishes, maintains, and operates systems for preventing the Company and its subsidiaries from engaging in any activities that may provide profits to anti-social forces in whatever name.

[Development and Operation]

The Anti-social Forces Countermeasure Headquarters has been established to oversee countermeasures against anti-social forces in the Company and its subsidiaries, a manual has been established for cases in which there has been contact from anti-social forces, and a system has been developed for handling cases as an entire company in coordination with legal counsel and external expert organizations in the event there has been contact.

Furthermore, investigations of business partners, internal education, and the like are conducted based on the “Guidelines on Shutting Out Anti-social Elements," in addition to periodically holding liaison meetings attended by personnel responsible for preventing undue claims in the Company and domestic subsidiaries. In fiscal 2022, one meeting was held.

g. Systems to Ensure the Appropriate Operations of the EBARA Group, Comprising the Company and Its Subsidiaries

[Basic Approach]

The Company establishes a policy on the operation of the EBARA Group comprising the Company and its subsidiaries, and develop, maintain and operate systems for ensuring appropriate operations of the Group.

[Development and Operation]

1) An internal control system is in place according to the scale and characteristics of the business of the Company and its subsidiaries. The Executive Officers of the Company are responsible for the establishment of internal control systems in subsidiaries.
2) The Company performs evaluations on the state of maintenance and operation of internal controls in the Company and its subsidiaries, and corrections are made when problems are found.

h. Systems for Assigning Employees to Assist the Audit Committee in the Execution of Its Duties

[Basic Approach]

The Company establishes a division that assists the Audit Committee in the execution of its duties.

[Development and Operation]

1) The Audit Committee Office has been established as a department that assists the Audit Committee in the execution of its duties.
2) The Company appoints employees who are to assist the Audit Committee in its duties (hereinafter referred to as "assistant employees of the Audit Committee" or "assistant employees") and assign them to the Audit Committee Office. In fiscal year 2022, 16 employees belonged to the Audit Committee Office, of which 5 were engaged in administrative work related to the Audit Committee as fulltime assistant employees. The other 11 employees were mainly engaged in the internal audit division or as auditors of subsidiaries and associates, and were concurrently employed by the Audit Committee Office as assistant employees. The assistant employees of the Audit Committee may also serve as auditors of subsidiaries and associates for the purpose of ensuring the internal control of the corporate group.

i. Matters Related to the Independence from Executive Officers of the Employees Who Assist the Audit Committee's Execution of Its Duties, and Matters Related to Ensuring the Effectiveness of the Instructions by the Audit Committee to Such Employees

[Basic Approach]

1) The appointment of assistant employees to the Audit Committee is determined with the consent of the Audit Committee, in principle.
2) Full-time assistant employees shall not concurrently perform duties related to the execution of the duties of the executive officers of the Company, and the independence of the assistant employees to the Audit Committee from the executive officers shall be ensured.
3) In the case that instructions from the Audit Committee conflict with instructions from the Executive Officers or the general manager of the department in which the concurrent assistant employees serves, the internal rules stipulate that the instructions from the Audit Committee shall take precedence, thereby ensuring the effectiveness of the Audit Committee's instructions.
4) With the prior consent of the Audit Committee, assistant employees to the Audit Committee are engaged by the auditors of subsidiaries and associates.
5) Personnel transfer, appraisal, and the like of the assistant employees to the Audit Committee are determined upon obtaining the consent of the Audit Committee.

[Development and Operation]

1) The appointment of assistant employees to the Audit Committee is determined with the consent of the Audit Committee, in principle.

2) Full-time assistant employees to the Audit Committee are not concurrently engaged in business operations concerning the execution of duties by Executive Officers of the Company. Assistant employees to the Audit Committee act under the instruction of the Audit Committee, thereby ensuring the effectiveness of instructions of the Audit Committee.
3) In case the instructions from the Audit Committee conflict with the instructions from the Executive Officers or the general manager of the department to which they are concurrently assigned, the internal rules stipulate that the instructions from the Audit Committee shall take precedence, thereby ensuring the effectiveness of the instructions from the Audit Committee.
4) With the prior consent of the Audit Committee, assistant employees to the Audit Committee are engaged by the auditors of subsidiaries and associates.
5) Personnel transfer, appraisal, and the like of the assistant employees to the Audit Committee are determined upon obtaining the consent of the Audit Committee.

j. Systems for Reporting to the Audit Committee of the Company by Executive Officers and Employees, etc., of the Company and by Directors, Audit & Supervisory Board Members and Employees, etc., of Its Subsidiaries, and Other Reporting to the Audit Committee of the Company

[Basic Approach]

1) The Company develops, maintains, and operates a system whereby the Audit Committee members are able to attend important meetings of departments engaging in business execution, and to receive reports from Executive Officers and employees, etc.
2) The Company develops, maintains, and operates a system whereby Directors, Audit & Supervisory Board Members and employees, etc., of subsidiaries in addition to persons receiving reports therefrom report to the Audit Committee.
3) Any person having made a report under the two preceding paragraphs shall not be subject to disadvantageous treatment because of such reporting.

[Development and Operation]

1) The Audit Committee members view important documents and receive reports on the execution of duties from Executive Officers and employees, etc., by attending important meetings of departments engaging in business execution such as the Management Meeting, the Sustainability Committee, and the RMP.
2) Executive Officers promptly report to the Audit Committee pursuant to the "Executive Officer Rules" in the event they discover a fraudulent act in the course of executing their duties, and such act is not redressed immediately.
3) In the course of audits by the Audit Committee, the Company and its subsidiaries provide information on the handling of management tasks and the legality and appropriateness of their business operations upon the request of the Audit Committee.
4) The Compliance Consultation Counter that can be used by the Company and domestic subsidiaries and the "Regulations for the Operation of the Compliance Consultation Counter" have been established to promptly address any reports or inquiries on violations of the "EBARA Group Business Ethics Framework," internal regulations, and laws, etc. in the Group. Furthermore, whistleblowing contacts via external law firms (Overseas EBARA Group hotlines) have been established for a total of 22 subsidiaries in 10 countries overseas. Reports on the state of implementation of these are made to the Audit Committee as appropriate.
5) The Audit Committee established the Audit Committee helpline, allowing reports to be received on the violation of laws and regulations in the Company and its subsidiaries, in addition to other issues concerning corporate ethics, and a system is in place for employees, etc. of the Company and its subsidiaries to report to the Audit Committee if the Company's Directors, Executive Officers, or Directors of its subsidiaries commit fraud, violate laws, regulations or the Articles of Incorporation, conduct improper accounting practices, have corporate ethics issues or are otherwise found to be grossly inappropriate for management of the Company.
6) The Company thoroughly ensures a system whereby any person having reported to the Audit Committee is not subject to disadvantageous treatment because of such reporting.

k. Other Systems for Ensuring the Effectiveness of Audits by the Audit Committee

[Basic Approach]

1) The Group ensures the effectiveness of audits by exchanging opinions and collaborating as necessary with the departments in charge of Internal Control, Risk Management and Compliance, and the Internal Audit Division as well as the Corporate Auditors and the Audit Committee of subsidiaries and associates.

2) In case of request by the Audit Committee, the head or a member of the Internal Audit Division or Corporate Auditors of subsidiaries and associates shall serve concurrently in a department under the control of the Audit Committee. In addition, candidates for Corporate Auditors of subsidiaries and associates shall be determined with the consent of the Audit Committee.

3) The Group establishes a policy concerning the handling of expenses and debts arising from the execution of duties by the Audit Committee and ensure that the Audit Committee's audits are conducted effectively.

[Development and Operation]

1) The President, Representative Executive Officer and Executive Officers in charge of the Fluid Machinery & Systems, Environmental Plant, and Precision Machinery Companies regularly exchange information and opinions with the Audit Committee.

2) Departments responsible for internal controls, risk management, and compliance, the Internal Audit Division, and corporate auditor of subsidiaries and associates regularly exchange information and opinions with the Audit Committee and also exchange information on important matters as needed in an effort to promote collaboration.

3) At the request of the Audit Committee, the head of the Internal Audit Division or a member of the division, or a corporate auditor of subsidiaries and associates, concurrently serves in a department established under the control of the Audit Committee. In addition, when nominating candidates for corporate auditors of subsidiaries and associates, decisions are made only after obtaining the consent of the Audit Committee.

4) The Company has established a policy regarding the handling of expenses and debts arising from the execution of duties by the Audit Committee to ensure that the Audit Committee's audits are conducted effectively.

l. Systems for Ensuring the Credibility of Financial Reports

[Basic Approach]

Internal controls to ensure the reliability of financial reporting shall be established and operated in accordance with the "Standards for Assessment and Audit of Internal Control over Financial Reporting" and the "Implementation Standards for Assessment and Audit of Internal Control over Financial Reporting."

[Development and Operation]

1) To ensure the credibility of consolidated financial reports, the "Standards for the Enforcement of Internal Controls over Financial Reporting" have been established for the purpose of maintaining and operating internal controls based on the Financial Instruments and Exchange Act, and their effectiveness is assessed every fiscal year.

2) In the assessment, the scope of assessment is set each fiscal year in consideration of the impact on financial reporting, management importance, etc., and the assessment is conducted by an assessment team independent of operations to improve and promote internal control.

vi) Development of Risk Management System

The Company has developed the risk management system within the Group, centering on the system described in the above "d. Regulations and other systems related to management of the risk of losses of the Company and its subsidiaries".

(ii) Quorum of Directors

The Company has stipulated in the Articles of Incorporation of the Company (hereinafter the "Articles of Incorporation") that the number of Directors of the Company shall not exceed 15.

(iii) Requirements for Resolution for Election of Directors

For resolution for election of Directors, the Company has stipulated in the Articles of Incorporation that the election of the Directors shall be made at the general meeting of shareholders by a majority of the voting rights of the shareholders having not less than one-third of the aggregate number of the voting rights of the shareholders who are entitled to exercise voting rights.

Furthermore, the Company has stipulated in the Articles of Incorporation that no cumulative voting shall be used for the election of Directors.

(iv) Matters for Which the Board of Directors May Pass Resolutions of the General Meeting of Shareholders

i) Exemption from Director and Executive Officer Liability

The Company has stipulated in the Articles of Incorporation that, pursuant to the provisions of Article 426, Paragraph 1 of the Companies Act, the Company may, by a resolution of the Board of Directors, exempt the Directors (including persons who were Directors) or Executive Officers (including persons who were Executive Officers) from the liability for compensation of the damages arising out of failure to perform duties, to the extent permitted by laws and ordinances. This aims to enable Directors and Executive Officers to fully fulfill their expected roles within the corporate governance framework.

The Company has also stipulated in the Articles of Incorporation that the Company may enter into agreements with Directors (excluding Directors who are Executive Directors) to limit their liability for damages as outlined under Article 423, Paragraph 1 of the Companies Act in accordance with Article 427, Paragraph 1 of the Companies Act. The Company has entered into the agreements with all Outside Directors. The limit of liability for damages under the agreement is the minimum liability amount stipulated under Article 425, Paragraph 1 of the Companies Act.

ii) Organ Which Determines Distribution of Retained Earnings, etc.

The Company has stipulated in the Articles of Incorporation that, except as otherwise provided for by laws or ordinances, the Company may, by resolution of the Board of Directors, determine the distribution of retained earnings and other matters prescribed in items of Article 459, Paragraph 1 of the Companies Act to facilitate our flexible capital policy and dividend policy.

(v) Requirements for Special Resolution at the General Meeting of Shareholders

The Company has stipulated in the Articles of Incorporation that, in order to facilitate the smooth operation of the general meeting of shareholders by relaxing the quorum for special resolutions at the general meeting of shareholders, the requirements for special resolution prescribed in Article 309, Paragraph 2 of the Companies Act shall be at least two-thirds of the votes of shareholders present at the general meeting of shareholders, where the shareholders holding at least one-third of the voting rights of shareholders who are entitled to exercise their voting rights are present.

(2) Directors and Other Officers

(i) List of Directors and Other Officers

Male: 21, Female: 3 (Ratio of female officers: 12.5%)

i) Directors

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Chairman & Director Member of the Nomination Committee	Toichi Maeda	December 24, 1955	April 1981 April 2007 April 2010 April 2011 June 2011 April 2012 April 2013 June 2015 March 2019 March 2019	Joined the Company Executive Officer of the Company Managing Executive Officer of the Company Head of Business Unit, Custom Pump Business Unit, Fluid Machinery & Systems Company of the Company Director of the Company President, Fluid Machinery & Systems Company of the Company President and Representative Director of the Company President, Representative Executive Officer of the Company Chairman & Director of the Company (to present) Member of the Nomination Committee of the Company (to present)	(Note 2)	340
Director	Masao Asami	April 7, 1960	April 1986 April 2010 April 2011 April 2014 June 2015 April 2016 March 2019 March 2019 January 2023 January 2023	Joined the Company Executive Officer of the Company Division Executive, Sales and Marketing Division, Precision Machinery Company of the Company Managing Executive Officer of the Company Managing Executive Officer of the Company (Change in Japanese only; English unchanged) President, Precision Machinery Company of the Company Director of the Company (to present) President, Representative Executive Officer of the Company (to present) CEO of the Company (to present) COO of the Company (to present)	(Note 2)	291

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Director Member of the Nomination Committee	Hajime Sawabe	January 9, 1942	April 1964	Joined Tokyo Denki Kagaku Kogyo K.K. (currently TDK Corporation)	(Note 2)	24
			June 1996	Director, Executive Vice President of Recording Device Business, TDK Corporation		
			June 1998	President & Representative Director, TDK Corporation		
			June 2006	Chairman & Representative Director, TDK Corporation		
			March 2008	Outside Director, Asahi Glass Co., Ltd. (currently AGC Inc.) (Retired in March 2014)		
			June 2008	Outside Director, TEIJIN LIMITED (Retired in June 2016)		
			June 2008	Outside Director, Nomura Securities Co., Ltd. (Retired in June 2011)		
			June 2009	Outside Director, Nomura Holdings, Inc. (Retired in June 2011)		
			March 2011	Outside Audit & Supervisory Board Member, Nikkei Inc. (Retired in March 2019)		
			June 2011	Director, Chairman of the Board of Directors, TDK Corporation		
			October 2011	Councilor, Waseda University		
			April 2012	Executive Adviser, Japan Management Association (Retired in March 2018)		
			June 2012	Executive Advisor, TDK Corporation (Retired in March 2019)		
			July 2014	Vice President, Board of Trustees, Waseda University		
			June 2015	Outside Director, Japan Display Inc. (Retired in June 2017)		
			June 2015	Director of the Company (to present)		
			June 2015	Member of the Compensation Committee of the Company		
			July 2018	President, Board of Trustees, Waseda University (Retired in June 2022)		
			April 2019	Adviser to the Executive Board, Value Creation 21 (to present)		
			March 2020	Chairperson of the Compensation Committee of the Company		
			June 2021	Outside Director, TV TOKYO Holdings Corporation (to present)		
			March 2022	Lead Independent Director of the Company (to present) Chairperson of the Nomination Committee of the Company (to present)		

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Director Member of the Nomination Committee Chairman of the Board of Directors	Hiroshi Oeda	March 12, 1957	April 1980	Joined Nisshin Flour Milling Inc. (currently Nisshin Seifun Group Inc.)	(Note 2)	24
			June 2009	Director, Nisshin Seifun Group Inc.		
			April 2011	Director and President, Nisshin Seifun Group Inc.		
			April 2015	Member of Management Council, Hitotsubashi University		
			April 2017	Director and Executive Adviser, Nisshin Seifun Group Inc.		
			June 2017	Corporate Special Adviser, Nisshin Seifun Group Inc. (to present)		
			June 2017	President, Seifun Kaikan Inc. (Retired in June 2022)		
			December 2017	Member, The Japanese National Commission for UNESCO		
			March 2018	Director of the Company (to present)		
			March 2018	Member of the Nomination Committee of the Company		
			June 2018	Outside Director, SEKISUI CHEMICAL CO., LTD. (to present)		
			March 2019	Chairperson of the Nomination Committee of the Company		
			June 2019	President, Hitotsubashi University Koenkai (to present)		
			March 2020	Lead Independent Director of the Company		
			December 2020	Vice-Chairperson, The Japanese National Commission for UNESCO (to present)		
			March 2022	Chairman of the Board of Directors of the Company (to present)		
			March 2022	Member of the Nomination Committee of the Company (to present)		
Director Member of the Compensation Committee	Junko Nishiyama	January 10, 1957	April 1979	Joined Lion Fat & Oil Co., Ltd. (currently Lion Corporation)	(Note 2)	21
			March 2006	Director, Finished Product Department, Purchasing Headquarters, Lion Corporation		
			March 2007	Director, Finished Product Purchasing, Production Coordinating Department No. 2, Production Headquarters, Lion Corporation		
			January 2009	Director, Packaging Engineering Research Laboratories, Research & Development, Headquarters, Lion Corporation		
			January 2014	Director, CSR Promotion Department, Lion Corporation		
			March 2015	Standing Corporate Auditor, Lion Corporation		
			March 2019	Advisor, Lion Corporation (Retired in March 2021)		
			March 2019	Director of the Company (to present)		
			March 2019	Member of the Audit Committee of the Company		
			June 2019	Outside Director, JACCS CO., LTD. (to present)		
			June 2020	Outside Auditor, TODA CORPORATION (to present)		
			March 2021	Member of the Compensation Committee of the Company (to present)		

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Director Member of the Compensation Committee	Mie Fujimoto	August 17, 1967	April 1993 April 1993 June 2009 April 2015 June 2015 June 2016 June 2016 March 2019 March 2020 March 2020 March 2022	Registered as an attorney at law (to present) Joined New Tokyo Sogoh Law Office Outside Corporate Auditor, Kuraray Co., Ltd. Joined TMI Associates (to present) Outside Audit & Supervisory Board Member, SEIKAGAKU CORPORATION (to present) Outside Audit & Supervisory Board Member, Tokyo Broadcasting System Holdings, Inc. (currently TBS Holdings, Inc.) (to present) (Audit & Supervisory Board Member, Tokyo Broadcasting System Television, Inc.) (to present) Outside Director, Kuraray Co., Ltd. (Retired in March 2020) Director of the Company (to present) Member of the Compensation Committee of the Company Chairperson of the Compensation Committee of the Company (to present)	(Note 2)	18
Director Member of the Audit Committee	Hisae Kitayama	August 30, 1957	October 1982 March 1986 May 1999 July 2013 June 2019 July 2019 July 2019 June 2020 July 2020 March 2021 March 2021 April 2021 June 2022 March 2023	Joined Asahi Accounting Company (currently KPMG AZSA LLC) Registered as a certified public accountant (to present) Partner, Asahi Accounting Company (currently KPMG AZSA LLC) Managing Executive Director, KPMG AZSA LLC Chairman, Kinki Chapter of Japanese Institute of Certified Public Accountants (Retired in June 2022) Deputy Chairman, Japanese Institute of Certified Public Accountants (Retired in July 2022) Senior Executive Director, KPMG AZSA LLC (Retired in June 2020) Outside Director, Tsubakimoto Chain Co. (to present) Representative, Kitayama Public Accounting Office (to present) Director of the Company (to present) Member of the Audit Committee of the Company Specially Appointed Professor, Graduate School of Social Sciences, University of Hyogo (to present) Outside Audit & Supervisory Board Member, Daicel Corporation (to present) Chairperson of the Audit Committee of the Company (to present)	(Note 2)	13
Director Member of the Audit Committee	Akihiko Nagamine	May 5, 1958	April 1982 June 2006 July 2010 April 2014 April 2015 June 2015	Joined EBARA DENSAN LTD. Director, EBARA DENSAN LTD. Joined the Company, General Manager, Investment and Affiliates Supervision Department, Finance & Corporate Accounting Division Division Executive, Finance and Accounting Division of the Company Executive Officer (*shikkou yakuin*) of the Company Executive Officer (*shikkou yaku*) of the Company	(Note 2)	149

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
			June 2015	Responsible for Finance and Accounting, Group Management, and Internal Control		
			March 2021	Director of the Company (to present)		
			March 2021	Member of the Audit Committee of the Company (to present)		
Director Member of the Compensation Committee	Takuya Shimamura	December 25, 1956	April 1980	Joined Asahi Glass Co., Ltd. (currently AGC Inc.)	(Note 2)	5
			January 2009	Executive Officer and GM of Planning & Coordination Office, Chemicals Company, Asahi Glass Co., Ltd.		
			January 2010	Executive Officer and President, Chemicals Company, Asahi Glass Co., Ltd.		
			January 2013	Senior Executive Officer and President, Electronics Company, Asahi Glass Co., Ltd.		
			January 2015	President & CEO, Asahi Glass Co., Ltd.		
			March 2015	Representative Director and President & CEO, Asahi Glass Co., Ltd.		
			January 2021	Chairman & Representative Director, AGC Inc.		
			March 2021	Director and Chairman, AGC Inc. (to present)		
			March 2022	Director of the Company (to present)		
			March 2022	Member of the Compensation Committee of the Company (to present)		
			June 2022	Outside Audit & Supervisory Board Member, JFE Holdings, Inc. (to present)		

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Director Member of the Nomination Committee	Teiji Koge	November 14, 1953	April 1976 June 2005 October 2005 April 2006 April 2007 July 2007 February 2008 April 2008 April 2009 March 2014 March 2015 March 2020 June 2022 March 2023 March 2023	Joined SEKISUI CHEMICAL CO., LTD. Director, SEKISUI CHEMICAL CO., LTD. President, Nagoya Sekisui Heim Co., Ltd. Director, Head of President's Office of Housing Company, SEKISUI CHEMICAL CO., LTD. Director, Head of Planning & Control Department of Housing Company, SEKISUI CHEMICAL CO., LTD. Director, Head of Housing Division and Planning & Control Department of Housing Company, SEKISUI CHEMICAL CO., LTD. Director, Responsible for Sales Department, Head of Housing Division of Housing Company, SEKISUI CHEMICAL CO., LTD. Director, President of Housing Company, Responsible for Sales Department, Head of Housing Division, SEKISUI CHEMICAL CO., LTD. Director, Managing Executive Officer, President of Housing Company, SEKISUI CHEMICAL CO., LTD. Director, Senior Managing Executive Officer, President of Housing Company, SEKISUI CHEMICAL CO., LTD. Director, Senior Managing Executive Officer, Head of CSR Department and Head of Corporate Communication Department, SEKISUI CHEMICAL CO., LTD. President and Representative Director, Chief Executive Officer, SEKISUI CHEMICAL CO., LTD. Chairman of the Board and Representative Director, SEKISUI CHEMICAL CO., LTD. Chairman of the Board and Director, SEKISUI CHEMICAL CO., LTD. (to present) Director of the Company (to present) Member of the Nomination Committee of the Company (to present)	(Note 2)	-
Director Member of the Audit Committee	Tsuyoshi Numagami	March 27, 1960	April 2000 January 2011 December 2014 April 2018 June 2018 April 2021 October 2021 June 2022 March 2023 March 2023	Professor, Graduate School of Commerce and Management, Hitotsubashi University Dean of Graduate School of Commerce and Management, Hitotsubashi University Board Member and Executive Vice President, Hitotsubashi University Professor, Graduate School of Business Administration, Hitotsubashi University (Retiring in March 2023) Outside Audit & Supervisory Board Member, JFE Holdings, Inc. (to present) Professor, School of Energy and Informatics, Tokyo Institute of Technology (Retiring in March 2023) President, The Academy of Management Development, Japan Productivity Center (to present) Outside Director, Tokyo Century Corporation (to present) Director of the Company (to present) Member of the Audit Committee of the Company (to present)	(Note 2)	-
Total						885

Notes: 1. Directors Hajime Sawabe, Hiroshi Oeda, Junko Nishiyama, Mie Fujimoto, Hisae Kitayama, Takuya Shimamura, Teiji Koge, and Tsuyoshi Numagami are Independent Directors.

2. The terms of office of the Directors shall be from the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ended December 31, 2022 to the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ending December 31, 2023.

3. The Company is a Company with Three Board Committees. The Company's committees are as follows:
Nomination Committee: Hajime Sawabe (Chairperson), Hiroshi Oeda, Toichi Maeda, and Teiji Koge
Compensation Committee: Mie Fujimoto (Chairperson), Junko Nishiyama, and Takuya Shimamura
Audit Committee: Hisae Kitayama (Chairperson), Akihiko Nagamine and Tsuyoshi Numagami
The Chairperson of each of the committees is elected by a resolution of the Board of Directors.

ii) Executive Officers

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
President, Representative Executive Officer, CEO & COO	Masao Asami	April 7, 1960	See "i) Directors."		(Note)	See "i) Directors."
Executive Officer President, Building Service & Industrial Company	Shu Nagata	March 17, 1968	April 1990 October 2008 April 2017 March 2018 March 2018 March 2019 January 2020 March 2022 March 2022 January 2023	Joined the Company Ebara Pumps Europe S.p.A. Managing Director General Manager, Global Sales and Marketing Department, Standard Pump Business Division, Fluid Machinery & Systems Company of the Company Executive Officer of the Company (to present) Division Executive, Corporate Strategic Planning Division of the Company Division Executive, Human Resources Division of the Company Division Executive, Corporate Strategic Planning and Human Resources Division of the Company President, Fluid Machinery & Systems Company of the Company Chillers Business of Fluid Machinery & Systems Company of the Company President, Building Service & Industrial Company of the Company (to present)	(Note)	88
Executive Officer President, Energy Company, CEO, Elliott Company, Chairman, EBARA GREAT PUMPS CO., LTD., and Chairman and CEO, Elliott Group Holdings, Inc.	Takanobu Miyaki	September 22, 1972	April 1996 March 2020 March 2020 March 2021 March 2022 March 2022 March 2022 March 2022 January 2023 January 2023 January 2023	Joined the Company Vice President, Elliott Group Holdings, Inc. Vice President, Elliott Company Director, Elliott Group Holdings, Inc. Director and CEO, Elliott Group Holdings, Inc. CEO, Elliott Company (to present) Executive Officer of the Company (to present) Responsible for Compressors and Turbines Business, Fluid Machinery & Systems Company President, Energy Company of the Company (to present) Chairman, EBARA GREAT PUMPS CO., LTD. (to present) Chairman and CEO, Elliott Group Holdings, Inc. (to present)	(Note)	-
Executive Officer President, Infrastructure Company	Teruyuki Ota	April 26, 1971	April 1994 April 2017 April 2021 March 2022 March 2022 January 2023	Joined the Company General Manager, Recruiting and HR Development Department, Human Resources, Legal and General Affairs Division General Manager, Infrastructure Systems Sales Department, System Business Division, Fluid Machinery Systems Company of the Company Executive Officer of the Company (to present) Division Executive, System Business Division, Fluid Machinery Systems Company of the Company President, Infrastructure Company of the Company (to present)	(Note)	9

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Executive Officer President, Environmental Solutions Company, and President and Representative Director, Ebara Environmental Plant Co., Ltd.	Hideki Yamada	May 31, 1961	April 1985 April 2013 April 2015 April 2015 April 2016 January 2019 October 2019 October 2019 January 2020 March 2020 January 2023 January 2023	Joined the Company Executive Officer of the Company Deputy Division Executive, China and East Asia Department, Strategy and Technology Management Division, Fluid Machinery & Systems Company of the Company Chairman, EBARA GREAT PUMPS CO., LTD. Division Executive, China and East Asia Department, Strategy and Technology Management Division, Fluid Machinery & Systems Company of the Company Division Executive, Industrial Pump Division, Fluid Machinery & Systems Company Managing Executive Officer of the Company Division Executive, Custom Pump Division, Fluid Machinery & Systems Company Chairman, EBARA MACHINERY ZIBO CO., LTD. Executive Officer of the Company (to present) President, Environmental Solutions Company (to present) President and Representative Director of Ebara Environmental Plant Co., Ltd. (to present)	(Note)	83
Executive Officer President, Precision Machinery Company	Tetsuji Togawa	April 13, 1963	April 1986 April 2013 April 2014 March 2019 March 2019 March 2020 January 2023	Joined the Company Division Executive, New Business Development Division, Precision Machinery Company of the Company Executive Officer of the Company Senior Managing Executive Officer of the Company President, Precision Machinery Company of the Company Executive Officer of the Company (to present) President, Precision Machinery Company of the Company (Change in Japanese only; English unchanged) (to present)	(Note)	164

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Executive Officer Chief Operating Officer, Precision Machinery Company	Masao Hodai	June 13, 1963	April 1988 January 2008 April 2016 April 2016 January 2020 January 2022 January 2023 March 2023	Joined the Company Director and General Manager, Ebara Precision Machinery Taiwan Incorporated Executive Officer of the Company Division Executive, Sales and Marketing Division, Precision Machinery Company of the Company Division Executive, Strategy and Administration Division, Precision Machinery Company of the Company Division Executive, Global Business Strategy Division, Precision Machinery Company of the Company Chief Operating Officer, Precision Machinery Company of the Company (to present) Executive Officer of the Company (to present)	(Note)	88
Executive Officer Division Executive, Equipment Division, Precision Machinery Company	Isao Nambu	April 14, 1974	April 1997 January 2020 January 2022 March 2022 January 2023	Joined the Company Division Executive, Marketing Division of the Company Division Executive, Equipment Division, Precision Machinery Company of the Company Executive Officer of the Company (to present) Division Executive, Equipment Division, Precision Machinery Company of the Company (Change in Japanese only; English unchanged) (to present)	(Note)	34
Executive Officer Division Executive, Components Business Division, Precision Machinery Company of the Company	Seiichi Tsuyuki	April 20, 1971	April 1992 April 2021 January 2022 March 2022 January 2023	Joined the Company Chairman, Ebara Precision Machinery Taiwan Incorporated (to present) Division Executive, Components Business Division, Precision Machinery Company of the Company Executive Officer of the Company (to present) Division Executive, Components Business Division, Precision Machinery Company of the Company (Change in Japanese only; English unchanged) (to present)	(Note)	9
Executive Officer Division Executive, Corporate Strategic Planning, Finance and Accounting Division & CFO	Shugo Hosoda	September 1, 1966	October 1993 April 2015 April 2016 April 2016 January 2018 January 2018 March 2021 March 2021 March 2022 January 2023	Joined the Company Division Executive, Governance Promotion Division of the Company Deputy Vice President, Elliott Group Holdings, Inc. Deputy Vice President, Elliott Company Vice President, Elliott Group Holdings, Inc. Vice President, Elliott Company Executive Officer of the Company (to present) Division Executive, Finance and Accounting Division of the Company Division Executive, Corporate Strategic Planning, Finance and Accounting Division of the Company Division Executive, Corporate Strategic Planning, Finance and Accounting Division & CFO of the Company (to present)	(Note)	68

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Executive Officer Division Executive, Human Resources Division & CHRO	Yoji Sato	July 18, 1964	April 1987 April 2011 April 2012 April 2017 January 2019 March 2022 March 2022 January 2023	Joined the Company Division Executive, Planning Division, Ebara Environmental Plant Co., Ltd. General Manager, EBARA QINGDAO CO., LTD. Division Executive, Sales Division, Ebara Environmental Plant Co., Ltd. Director, Ebara Environmental Plant Co., Ltd. Executive Officer of the Company (to present) Division Executive, Human Resources Division of the Company Division Executive, Human Resources Division & CHRO of the Company (to present)	(Note)	42
Executive Officer Division Executive, Legal, Internal Control, Risk Management and General Affairs Division & CRO	Toru Nakayama	June 5, 1959	September 2014 January 2018 March 2018 March 2018 January 2023	Joined the Company Division Executive, Internal Control and Risk Management Division of the Company Executive Officer of the Company (to present) Division Executive, Legal, Internal Control, Risk Management and General Affairs Division of the Company Division Executive, Legal, Internal Control, Risk Management and General Affairs Division & CRO of the Company (to present)	(Note)	59
Executive Officer Division Executive, Information & Communication System Division & CIO	Hiroyuki Kowase	November 22, 1963	April 2014 December 2015 July 2018 December 2018 April 2019 March 2020 January 2023	Executive Officer and CIO General Manager, IT Promotion Headquarters, LIXIL Corporation Senior Managing Executive Officer and CIO General Manager, Information Systems Headquarters, LIXIL Corporation Deputy Chief Global Information Technology Officer, Department Director, ICT Strategy & Platform Department, Shiseido Company, Limited Joined the Company Division Executive, Information & Communication System Division of the Company Executive Officer of the Company (to present) Division Executive, Information & Communication System Division & CIO of the Company (to present)	(Note)	34
Executive Officer Division Executive, Technologies, R&D & Intellectual Property Division & CTO	Norihisa Miyoshi	December 18, 1962	April 1987 April 2016 January 2019 January 2022 January 2023 March 2023	Joined the Company Division Executive, Basic Technology Division, Ebara Environmental Plant Co., Ltd. Division Executive, Engineering Division, Ebara Environmental Plant Co., Ltd. President and Representative Director of Ebara Environmental Plant Co., Ltd. Division Executive, Technologies, R&D & Intellectual Property Division of the Company Executive Officer of the Company (to present)	(Note)	43

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
			March 2023	Division Executive, Technologies, R&D & Intellectual Property Division & CTO of the Company (to present)		
Total						727

Note: The terms of office of the Executive Officers shall be from the conclusion of the first meeting of the Board of Directors held after the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ended December 31, 2022 to the conclusion of the first meeting of the Board of Directors held after the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ending December 31, 2023.

(ii) Independent Directors and Other Officers

The Company currently has eight Independent Directors, who constitute a majority of all eleven Directors. There are no special interests between any of those Independent Directors and the Company. Hajime Sawabe previously served as a business executive at TDK Corporation, which has a business relationship with the Group such as sales of products. Takuya Shimamura previously engaged in business execution at AGC Inc., which has a business relationship with the Group such as sales of products and after-sales services. However, we have judged that none of those business relationships may cause any conflicts of interests with general shareholders.

When we elect Independent Directors, we shall appoint independent candidates who have no material interests in the Company. To ensure their independence, we have stipulated standards pertaining to their transactions and relationships with the Group in rules and regulations.

We believe that the election of Independent Directors allows us to reflect their knowledge and expertise from their independent standpoints in the supervision and audit of management and business execution, thereby enhancing the appropriateness of management.

Independent Directors attend the Sustainability Committee meetings as observers and exchange opinions with Executive Officers and the internal audit division, etc. by sharing information with each other.

(3) Auditing Status

(i) Auditing Status by the Audit Committee

i) Organization, Personnel, and Procedures of Audit Committee

For organization, personnel, and procedures of audits by the Audit Committee, please refer to "(1) Overview of corporate governance i) Corporate governance system (i) Outline of the corporate governance system <Supervisory> [Audit Committee]."

ii) Activities of the Audit Committee

During the fiscal year ended December 31, 2022, the Company held 22 meetings of the Audit Committee. The attendance of each Audit Committee member is as follows.

Position	Name	Attendance
Full-time Audit Committee member	Akihiko Nagamine	22 (100%)
Independent (Part-time) Audit Committee member	Masahiro Hashimoto	22 (100%)
	Hisae Kitayama	22 (100%)

The Company defines major areas assessed by the Audit Committee, for example, items requiring intensive auditing alongside items audited continuously every fiscal year. Major areas evaluated by the Audit Committee include the following.

・Verification of the establishment of operations regarding the adoption of IFRS and appropriateness of accounting treatments of other important accounting matters

・Verification of the progress on the medium-term management plan, E-Plan 2022, and measures related to various issues in formulating the next medium-term management plan

・Verification of the management and supervision status of the Group companies including overseas subsidiaries, such as the implementation status of due diligence of M&As and integration process

・Other matters that require special attention in the development and operation of Group internal controls including compliance with the Corporate Governance Code and the development of a global information security system

Furthermore, the main activities of the Audit Committee, including those by full-time Audit Committee members, are as follows.

・The Audit Committee shares recognition pertaining to management issues and business risks and exchanges opinions with the executive branch, including triannual hearings with the President and Representative Executive Officer, and annual hearing from each Executive Officer in charge of the president of Fluid Machinery & Systems Company, Environmental Engineering Company, and Precision Machinery Company.

・The Audit Committee attends meetings of the Management Meeting, the Sustainability Committee, the Risk Management Panel, and other important meetings as well as the Board of Directors to improve the effectiveness and efficiency of audits, and maintains an accurate and up-to-date understanding of relevant information. Advice is also provided to the executive team as necessary.

・For coordination with Internal Audit Division and Independent Auditor, the Audit Committee strives to conduct efficient audits through mutual coordination with Internal Audit Division and Independent Auditor described in "(ii) Internal Audit."

・The Audit Committee examines documents related to the approval of important matters to confirm that decisions are made appropriately in accordance with internal rules.

・On-site audits are performed at domestic and overseas offices, operating sites, and subsidiaries, and members of the Audit Committee observe internal audits by the executive branch and audits by the Independent Auditor as necessary to confirm that internal control systems are functioning effectively at the Company and across the Group. In fiscal 2022, the Audit Committee focused on visiting audits while also utilizing remote auditing methods including interview surveys using a web conferencing system, which had been used under the COVID-19 pandemic.

・The Group Auditor Conferences are held twice a year and attended by the auditors of subsidiaries and associates, and receive business reports from subsidiaries and associates, if necessary.

(ii) Internal Audit

The Company established Corporate Audit Department (29 employees as of the filing date of the Annual Securities Report) as the Internal Audit Division, which integrates internal control and response functions to internal whistleblowing hotlines. The Company verifies the effectiveness of the internal control system of the Company and its subsidiaries through internal audits of each business operation and evaluation of internal control over financial reporting.

The Corporate Audit Department conducts internal audits in accordance with the annual internal audit plan based on the "Internal Audit Rules" and evaluates the effectiveness of internal control over financial reporting in accordance with the Financial Instruments and Exchange Act.

The Corporate Audit Department holds regular and occasional information exchange meetings with the Audit Committee and reports to the Audit Committee members on the results of internal audits of the Company and its subsidiaries and the status of internal controls. The information exchange meetings have attendees from the Audit Committee members, Executive Officers in charge and General Manager of the Corporate Audit Department as well as the manager of risk management division. They enhance the effectiveness of audits by the Audit Committee and internal audits by sharing and utilizing the latest risk information on a timely basis. By having the employees of the Corporate Audit Department who are mainly in charge of internal audits concurrently work with the Audit Committee Office, we further strengthen cooperation in audits by the Audit Committee and internal audits.

The Audit Committee and the Corporate Audit Department work closely with the audit firm that serves as an accounting auditor on a regular and as-needed basis to exchange information and opinions on audit results, internal control status and risk assessments perceived by the audit firm.

(iii) Accounting Audit

i) Name of Audit Firm

Ernst & Young ShinNihon LLC

ii) Period of Continuous Auditing

15 fiscal years

Continued since 144th fiscal year ended March 31, 2009

iii) Certified Public Accountants Who Executed the Audit Duties

Mineo Kanbayashi

Takayuki Ando

Keita Tsujimoto

iv) Composition of Assistants to Audit Work

23 certified public accountants

36 others

v) Policy and Reasons for Appointing Audit Firm and Evaluation Thereof

The Audit Committee confirms that the Independent Auditor maintains an independent position and conducts appropriate audits, and it also receives reports from the Independent Auditor on the status of execution of duties on a regular and as-needed basis. The Audit Committee, based on the results of the assessment conducted each fiscal year on whether or not to reappoint the Independent Auditor, considered the Independent Auditor's qualifications, independence, and overall capabilities, and found no facts applicable to any of the reasons for dismissal prescribed in the "Policies Regarding the Dismissal or Refusal of Reappointment of the Independent Auditor." Therefore, the Audit Committee decided to reappoint Ernst & Young ShinNihon LLC as the Independent Auditor for the 158th fiscal year (fiscal year 2022).

Policies Regarding the Dismissal or Refusal of Reappointment of the Independent Auditor

a. Dismissal Policy

In the event that the Independent Auditor is found to fall under any of the items under Article 340, Paragraph 1 of the Companies Act, the Audit Committee shall dismiss the Independent Auditor with the unanimous consent of the Audit

Committee members.

b. Policy on Refusal of Reappointment

In the event that it is determined that an audit is clearly inadequate in light of the eligibility, independence or overall capabilities of the Independent Auditor based on the results of the assessment conducted each fiscal year on whether or not to reappoint the Independent Auditor, the Audit Committee shall propose the refusal of reappointment of the Independent Auditor to the General Meeting of Shareholders.

As a restriction on reappointment of the Independent Auditor, if the Independent Auditor serves for ten years in succession, the Audit Committee conducts a tender to appoint the candidates for the next Independent Auditor regardless of the assessment of the Independent Auditor (hereinafter referred to as "Reappointed Independent Auditor") conducted every year. The Reappointed Independent Auditor is not prohibited from participating in the tender, but if the Reappointed Independent Auditor serves for a further five years in succession, another tender shall be conducted.

However, the same Independent Auditor may only serve for a period of twenty years in succession.

c. Results of the Tender for the Independent Auditor Candidate

Fiscal 2022 was the 15th fiscal year since Ernst & Young ShinNihon LLC was appointed as the Independent Auditor of the Company, and in accordance with "b. Policy on Refusal of Reappointment," the Company's Audit Committee conducted a tender to select a candidate for the Independent Auditor in the next fiscal year. Based on the results of the evaluations and deliberation conducted in accordance with the tendering standards prescribed by the Audit Committee, Deloitte Touche Tohmatsu LLC was appointed as the Company's Independent Auditor at the 158th Ordinary General Meeting of Shareholders held on March 29, 2023. For the reasons why the said audit firm was appointed, see the details in the extraordinary report stated under (iii) Accounting Audit, vi) Change of Audit Firm.

vi) Change of Audit Firm

The Company resolved the appointment of an audit firm at the Ordinary General Meeting of Shareholders held on March 29, 2023 as follows.

The 158th fiscal year (January 1, 2022 to December 31, 2022): Ernst & Young ShinNihon LLC

The 159th fiscal year (January 1, 2023 to December 31, 2023): Deloitte Touche Tohmatsu LLC

The matters stated in the extraordinary report are as follows.

1. Name of the certified public accountant, etc. pertaining to the change

(1) Name of the appointed certified public accountant, etc.

Deloitte Touche Tohmatsu LLC

(2) Name of the outgoing certified public accountant, etc.

Ernst & Young ShinNihon LLC

2. Date of change

March 29, 2023 (The date of the 158th Ordinary General Meeting of Shareholders)

3. Date of original appointment of outgoing certified public accountant, etc.

June 27, 2008

4. Opinions on audit reports and other documents prepared by outgoing certified public accountant, etc. over the last three years

Not applicable

5. Reasons and circumstances for the (decision to) change

The Company's Audit Committee has a policy of selection and evaluation of the Independent Auditor, which stipulates to conduct a tender to appoint the candidates for the next Independent Auditor regardless of the assessment every year if it serves for ten years in succession. If the reappointed Independent Auditor serves for another five years in succession, another tender shall be conducted. The same Independent Auditor may only serve for a period up to twenty years in succession.

Fiscal 2022 is the 15th fiscal year since Ernst & Young ShinNihon LLC was appointed as the Independent Auditor of the Company, and the Company's Audit Committee has conducted a tender according to the policy.

Upon receiving and reviewing the proposals from several auditing firms, the Audit Committee determined that Deloitte Touche Tohmatsu LLC is qualified, taking into account that it has an auditing structure which is suitable for the future global business development and governance structure of the Group as well as the desired expertise, independence and quality management system in light of the Company's election standards for nominees for Independent Auditor and that audits from a new perspective can be anticipated as a result of the change in Independent Auditors.

6. Opinion for reasons and circumstances described in 5. above

(1) Opinion of the outgoing certified public accountant, etc.

The Company received a statement that there were no particular opinions in this regard.

(2) Opinion of the Company's Audit Committee

The Company's Audit Committee considers the change in the Company's certified public accountant, etc. to Deloitte Touche Tohmatsu LLC appropriate.

(iv) Audit Compensation

i) Compensation Paid to Certified Public Accountant, etc.

Category	Fiscal year ended December 31, 2021		Fiscal year ended December 31, 2022	
	Audit fees (millions of yen)	Non-audit fees (millions of yen)	Audit fees (millions of yen)	Non-audit fees (millions of yen)
Reporting company	161	–	200	2
Consolidated subsidiaries	37	–	36	–
Total	198	–	236	2

Non-audit fees paid by the Company in the current fiscal year was for the preparation of a comfort letter regarding corporate bond issuance.

ii) Compensation Paid to Member Firms Belonging to the Same Network (EY) to Which the Certified Public Accountant, etc. Belong (excluding i))

Category	Fiscal year ended December 31, 2021		Fiscal year ended December 31, 2022	
	Audit fees (millions of yen)	Non-audit fees (millions of yen)	Audit fees (millions of yen)	Non-audit fees (millions of yen)
Reporting company	–	–	–	–
Consolidated subsidiaries	337	48	383	72
Total	337	48	383	72

Non-audit fees paid by the consolidated subsidiaries in the previous and current fiscal years were for tax support services.

iii) Other Important Audit Fees

Not applicable.

iv) Policy for Determining Audit Compensation

Audit compensation of the Company has been determined based on the comprehensive consideration of audit plans and days spent for audits, among others, and upon obtaining approval of the Audit Committee.

v) Reason for the Audit Committee Consenting to the Compensation Paid to the Independent Auditors

As a result of considering the Independent Auditors' audit team arrangement, audit plan, status of implementation of auditing, establishment of an audit firm quality control system, the estimation of audit compensation, and other matters, the Audit Committee determined that the compensation, etc., to be paid to the Independent Auditors is at a reasonable level, and provided the consent under Article 399, Paragraph 1 of the Companies Act.

(4) Compensation for Officers

(i) Matters on Policy on Determining Compensation Amounts, etc. for Officers and Calculation Methods

i) Policy on Determining Compensation Amounts, etc. for Officers and Calculation Methods

The Company is a Company with Three Board Committees, and the policy concerning compensation, etc., of Directors and Executive Officers (hereinafter referred to as the "Compensation Policy") is decided by the Compensation Committee.

The Compensation Policy as of the filing date was decided by the resolution of the Compensation Committee in March 2023, based on the Company's long-term vision, E-Vision 2030, and medium-term management plan, E-Plan 2025. The details are as follows.

a. Compensation for Directors

(a) Objectives and Basic Policy of the Compensation System

Directors' compensation levels and compensation system shall reflect their roles, etc. at the Board of Directors and each Committee to ensure that Directors supervise the execution of business by Executive Officers in conformance with the Company's management philosophy and management strategy for the purpose of sustained growth of the Company and increasing corporate value in the medium to long term.

(b) Compensation System

i) Compensation System for Non-executive Directors

Compensation for non-executive Directors consists of basic compensation and long-term incentives, and is determined by the Compensation Committee, as they are expected to fulfill their roles and responsibilities to supervise lawful business execution in a position that is independent of the execution of business. Long-term incentives shall be in the form of restricted stock compensation (RS), which aims to enhance the sharing of value with shareholders by continuously improving corporate value and promoting shareholding by officers. In addition, the Chairperson of the Board of Directors, the Lead Independent Director, and the Chairperson of each Committee shall be paid allowances based on the degree of their roles and responsibilities, the number of hours spent for performing such duties, and the like.

ii) Executive Directors

The Company pays compensation as Executive Officers to Executive Directors concurrently serving as Executive Officers and does not pay them compensation as Directors.

(c) Combination of Compensation

The combination of Directors' compensation is as follows.

Position	Basic compensation	Short-term performance-linked compensation	Share-based compensation (long-term incentives)	
			Restricted stock compensation	Performance-linked stock compensation
Non-executive Directors	1	–	0.3	–

Note: The above shows a compensation ratio, and the amount of compensation paid to each individual varies.

b. Compensation for Executive Officers

(a) Objectives and Basic Policy of the Compensation System

The compensation system for Executive Officers is linked to short-term and medium- to long-term performance to encourage the execution of business in line with the management philosophy and management strategies and to provide strong motivation for the achievement of management targets. This system also provides an appropriate level of compensation when targets are met for the purpose of sustained growth of the Company and medium- to long-term enhancement of corporate value.

(b) Compensation System

The compensation for Executive Officers comprises basic compensation according to the role of President and Representative Executive Officer or each Executive Officer, a short-term performance-linked compensation, restricted stock compensation, and performance-linked stock compensation, and is determined by the Compensation Committee. As the Executive Officers are expected to play key roles in the achievement of numerical targets in their business execution, the compensation system is designed to allocate a larger performance-linked portion for Executive Officers in higher roles with greater responsibility.

As for the company-wide and business-level index of the short-term performance-linked compensation, the ROIC and consolidated operating profit, which are consistent with the management goal of profitability improvement, will be adopted since fiscal year 2023. In order to practice advanced ESG management toward the realization of a sustainable society through business activities, the Committee introduced ESG indicators. The evaluation items are "E" (Environment) based on the CDP (Carbon Disclosure Project)[*1] and "S" (Society) based on the GES (Global Engagement Survey)[*2]. For Executive Officers except for President and Representative Executive Officer, in addition to the company-wide or business-level performance, individual targets are set, and the achievement rate against the target will be evaluated, and the pay rate will be determined through discussion at the Compensation Committee.

*1. CDP is an international NGO running a project in which institutional investors collaborate to require companies to disclose their climate change strategies and specific greenhouse gas emissions.
Total market capitalization of CDP participants (approximately 9,600 companies including the Company) accounts for 50% or more of total global market capitalization.

*2. The GES is an EBARA survey, involving employees of both domestic and overseas Group companies, conducted since 2019 to assess the status of employee engagement in the workplace to achieve the medium- to long-term vision.

Also, as for the index of the performance-linked stock compensation, the ROIC of the Company for the year ending December 31, 2025, the final fiscal year of the medium-term management plan E-Plan 2025, will be adopted.

(c) Combination of Compensation

The combination of Executive Officers' compensation is as follows.

Position	Basic compensation	Short-term performance-linked compensation	Share-based compensation (long-term incentives)	
			Restricted stock compensation	Performance-linked stock compensation
President, Representative Executive Officer	1	0.6	0.3	0.3
Executive Officer	1	0.6	0.2-0.25	0.2-0.25

Notes: 1. The above shows a compensation ratio, and the amount of compensation paid to each individual varies.
2. Short-term performance-linked compensation is paid within the range of 0 to 200% based on the level of achievement of company-wide or business-level performance targets.
3. Performance-linked stock compensation is paid within a range of 0 to 200% based on the level of achievement of company-wide performance targets.

(d) Compensation Levels

The basic compensation is aimed at a level that is comparable with competing companies assumed to have similar businesses and human resources (hereinafter referred to as "domestic peers"). The compensation levels of domestic peers shall be regularly checked and, at the same time, compensation levels according to the roles of each Executive Officer shall be adjusted and determined, with attention also given to employees' compensation levels (such as disparity with officers, deviation from publicly accepted levels, etc.).

By implementing these measures, the level of total compensation (the sum of the basic compensation, short-term performance-linked compensation, restricted stock compensation, and performance-linked stock compensation) for Executive Officers of the Company shall be designed to be higher than the level of domestic peers if the targets of strategies and business performance have been successfully achieved and be lower than the compensation level of officers of domestic peers if such performance targets fail to be achieved.

ii) Overview of Institutions and Procedures for Determining the Policy on Determining Compensation Amounts, etc. for Officers and Calculation Methods

The Compensation Policy for officers, etc. is determined by the Compensation Committee, which consists of three Independent Directors to put greater emphasis on transparency and the importance of an objective viewpoint. Specifically, it appointed a specialist in management strategy, an executive with experience in corporate management, and an expert in corporate law from among the Independent Directors.

The primary task of the Compensation Committee is to supervise the compensation systems for Directors and Executive Officers from a strategic viewpoint. Specifically, the Compensation Committee is in charge of examining and determining the compensation systems prepared in line with the management policies of the Company, and determines the Compensation Policy. It also deliberates compensation systems for officers of Group companies as well as Directors and Executive Officers of the Company, and provides its opinions to the Board of Directors. If it is deemed necessary for the activities of the Committee, the Committee may collectively request the opinion of an expert such as a compensation consultant. When selecting such consultants, attention is taken and checks are made in order to ensure their independence.

In order to carry out these activities, the Compensation Committee meets regularly and as necessary, and the results of deliberations at the Compensation Committee are reported to the Board of Directors by the Chairperson of the Committee.

In addition to receiving explanations of the regulations (Basic Policy on Officers' Compensation) prescribed by the Compensation Committee, newly appointed committee members get briefed on the Company's performance and the background and history of compensation systems. Furthermore, a full-time committee secretariat has been established, which provides appropriate support for the operation of the Committee by providing information on such matters as laws and regulations, rules, and standards to the committee members currently in office.

In fiscal 2022, the Compensation Committee met twelve times and resolved the Compensation Policy. It has also determined the amount of basic compensation and short-term performance-linked compensation for each individual Director and Executive Officer based on the Compensation Policy, as well as the details and the number of restricted stock compensation and performance-linked stock compensation.

iii) Reasons Why the Compensation Committee Believes the Details of Individual Compensation for Directors and Executive Officers for the Fiscal Year Ended December 31, 2022 Are in Line with the Determination Policy

The Compensation Committee determined the details of individual compensation for Directors and Executive Officers for the fiscal year ended December 31, 2022 after careful deliberation at its meeting based on (a) Objectives and basic policy of the compensation system presented in a. Compensation for Directors and b. Compensation for Executive Officers, as stated above. The committee deliberated (1) whether the amount of basic compensation was in accordance with the roles of each Director and Executive Officer, while taking into account the compensation levels of domestic peers and those of employees; (2) whether the amount of short-term performance-linked compensation for individual Directors and Executive Officers was in accordance with the achievement levels of company-wide performance targets and individual targets for the fiscal year ended December 31, 2022; and (3) whether a prescribed number of shares would be granted under the restricted stock compensation scheme in accordance with the roles of each Director and Executive Officer. Accordingly, the Compensation Committee believes that the details of individual compensation for Directors and Executive Officers for the fiscal year ended December 31, 2022 are in line with the determination policy.

(ii) Payment Items

i) Short-term performance-linked compensation

a. Overview

The mechanism of the short-term performance-linked compensation focuses on incentives for achieving the medium-term management plan, directly determining compensations according to the company-wide or business-level performance and the degree of achievement of targets by individuals. However, in cases such as profit attributable to owners of parent being extremely low or no dividends being paid, the Compensation Committee shall decide on measures such as reducing the short-term performance-linked compensation.

b. Company-wide performance indicator targets and results for fiscal year 2022

Performance indicator	Target for fiscal year 2022	Actual results for fiscal year 2022
Consolidated ROIC	10.7%	11.2%
Consolidated operating profit	¥67.1 billion	¥70.6 billion
Revenue from S&S	¥244.9 billion	¥265.8 billion

ii) Long-term Incentives (Restricted stock compensation and performance-linked stock compensation)

a. Overview

Long-term incentives are stock compensation linked to the Company’s share price from the perspective of preventing shortsighted management behavior and ensuring interests match with those of shareholders.

The Company’s stock compensation consists of the tenure-based restricted stock, which requires continuous service for the Company and some of its Group companies as an officer or employee, and performance-linked stock, which requires the attainment of the Company’s mid- to long-term business performance targets, in addition to the aforementioned requirement.

(a) Restricted stock compensation

As a principle, certain numbers of restricted shares will be given to officers, etc. of the Company or its subsidiaries corresponding to their roles per year. Because the objectives are to promote shareholding by officers, etc., and increase value sharing with shareholders, the transfer restricted period is from the share grant date to the day of retirement; thus the transfer restriction will be lifted when he/she retires from the position of officers, etc. of the Company or its subsidiaries.

(b) Performance-linked stock compensation

For the performance-linked stock compensation, with the standard number of shares to grant set in advance in accordance with the roles of the officers eligible for payment in the first fiscal year of the medium-term management plan, the Company will grant the number of its shares calculated according to the degree of achievement of the consolidated ROIC target for the fiscal year ending December 31, 2025, the final fiscal year of the medium-term management plan. The equivalent of 40% of the allotted shares will be paid in cash.

With regard to the sale of shares granted through stock compensation, the Company has established shareholding guidelines that encourage the holding of a certain quantity of the Company’s shares, thereby promoting value sharing with shareholders.

b. Company-wide Performance Indicator Targets and Results for Performance-linked Stock Compensation

Of the long-term incentives, performance-linked stock compensation will be paid at a rate of 0% to 200% based on the level of achievement of the consolidated ROIC target (7.6%) for the fiscal year ended December 31, 2022, the final fiscal year of the medium-term management plan E-Plan 2022. The ROIC for the fiscal year ended December 31, 2022 was 11.2%.

(iii) Calculation Method of Performance-linked Stock Compensation

(1) Overview of the plan

To the Company's Executive Officers (including Officers who concurrently serve as Executive Directors of the Company's subsidiaries), performance-linked stock compensation (Performance Share Unit, "PSU") will be paid for the evaluation period from fiscal 2023 to fiscal 2025 (from January 2023 through December 2025), the period covered by the medium-term management plan, E-Plan 2025.

The same plan will be applied to certain Company's subsidiaries and performance-linked stock compensation calculated by the same calculation method as that for the Company's Executive Officer will be paid.

(2) Calculation method of PSU

The calculation will be done in accordance with the following method to determine the number of shares and amount of money to be paid to each officer eligible for payment, respectively.

I. Officers eligible for payment

As per the performance-linked payment stipulated in Article 34, Paragraph 1, item (iii) of the Corporation Tax Act and Article 34, Paragraph 5 of the same Act, Executive Officers of the Company and Directors of Ebara Environmental Plant Co., Ltd. who are executive officers subjected to deduction are listed as officers eligible for payment.

II. Asset paid as PSU

PSU comprises the Company's common shares and money.

III. Method of calculation of the number of shares individually paid and the amount of money individually paid

(a) Number of shares to be paid individually as PSU (fractions less than one unit are rounded off)

Standard number of unit (A. below) × payment rate (B. below) × 60%

1 unit is 100 shares of the Company's common shares.

However, the upper limit of the total number of the Company's common shares to be paid is 73,300 and the upper limit of the total number of the Company's common shares paid by respective companies are as listed in the table below.

	The Company	Ebara Environmental Plant Co., Ltd.	Total
Upper limit	62,100 shares	11,200 shares	73,300 shares

As for payments to Executive Officers of the Company who are non-residents at the time of payment, they will be paid in money in an amount obtained by multiplying the number of shares individually paid calculated as per the above formula by the price of the Company's common shares as defined below (b).

Note: The "defined amount" stipulated in Article 34, Paragraph 1, item (iii) (a) 1. of the Corporation Tax Act shall be the "upper limit" indicated above.

(b) Individual payment amount of PSU by money (fractions of less than ¥100 are rounded off)

Standard number of unit (A. below) × payment rate (B. below) × 40% × price of the Company's common shares (Note)

1 unit is 100 shares of the Company's common shares.

Note: The average closing price of the Company's common shares on the Tokyo Stock Exchange two months prior to the month of the meeting of the Company's Board of Directors to resolve the third-party allotment of the Company's common shares related to the PSU by shares in April 2026.

However, the upper limit of total amount of money paid will be ¥515 million and the upper limits of the amount of money paid by respective companies are as listed in the table below.

	The Company	Ebara Environmental Plant Co., Ltd.	Total
Upper limit	¥433 million	¥82 million	¥515 million

The total amount of the monetary remuneration claims granted at the time of payment of PSU by shares and the amount of money to be paid as PSU in money shall be ¥1,285 million, and upper limits of the amount of payments by respective companies are as listed in the table below.

	The Company	Ebara Environmental Plant Co., Ltd.	Total
Upper limit	¥1,081 million	¥204 million	¥1,285 million

Note: The "defined amount" stipulated in Article 34, Paragraph 1, item (iii) (a) 1. of the Corporation Tax Act shall be the "upper limit" indicated above.

IV. Evaluation period

From January 2023 to December 2025

V. Timing of the payment

The number of the Company's common shares and the amount of money to be paid as calculated by the above formula will be paid in May 2026.

A. Standard number of unit

According to the roles of the officers eligible for payment, the Company presets the standard number of unit (1 unit is 100 shares of the Company's common shares) as listed in the table below. The Company will provide the Company's Executive Officers who serve concurrently as the Executive Directors of its consolidated subsidiaries Ebara Environmental Plant Co., Ltd. and Elliot Group Holdings, Inc. (hereinafter "subject subsidiary") with certain number of units commensurate with their roles at the Company according to the status of concurrent services.

The Company	Name	Standard number of unit
President, Representative Executive Officer	Masao Asami	87
Executive Officer	Shu Nagata	42
Executive Officer (serving concurrently as Director at a subject subsidiary)	Takanobu Miyaki	21
Executive Officer (serving concurrently as Director at a subject subsidiary)	Hideki Yamada	21
Executive Officer	Tetsuji Togawa	42
Executive Officer	Masao Hodai	27
Executive Officer	Isao Nambu	27
Executive Officer	Shugo Hosoda	27
Executive Officer	Teruyuki Ota	22
Executive Officer	Seiichi Tsuyuki	22
Executive Officer	Yoji Sato	22
Executive Officer	Toru Nakayama	22
Executive Officer	Hiroyuki Kowase	22
Executive Officer	Norihisa Miyoshi	22

Ebara Environmental Plant Co., Ltd.	Name	Standard number of unit
President and Representative Director	Hideki Yamada	21
Director	Takehiko Urushibata	14
Director	Hiroya Nose	14
Director	Masayuki Kai	12

B. Payment rate

The Company determines the payment rate based on the following formula in accordance with the consolidated return on invested capital (ROIC) for the fiscal year ending December 31, 2025, the final year of the medium-term management plan, E-Plan 2025.

Payment rate (%) (Note 1) = Consolidated return on invested capital (ROIC) (Note 2) × 20－100

Notes: 1. Rounded to the first decimal place. However, if the result of the calculation is 0% or less, it should be 0% (non-payment) and if it is more than 200%, it should be 200%.

2. Consolidated return on invested capital (ROIC) = {Operating profit－Income tax expense＋Share of profit (loss) of investments accounted for using equity method － Profit attributable to non-controlling interests} ÷ {Interest-bearing debt (the average of beginning and ending balances)*1＋Total equity attributable to owners of parent (the average of beginning and ending balances)*2} x 100

*1 "Interest-bearing debt (the average of beginning and ending balances)" represents the average of the total of the amounts reported in "Bonds, borrowings and lease obligations" under current liabilities and non-current liabilities in the consolidated statement of financial position of the Company as of December 31, 2021 and December 31, 2022.

*2 "Total equity attributable to owners of parent (the average of beginning and ending balances)" represents the average of the total of the amounts reported in "Total equity attributable to owners of parent" in the consolidated statement of financial position of the Company as of December 31, 2021 and December 31, 2022.

(3) Payment requirements of PSU

The Company's shares will be issued and money will be paid to the Company's Executive Officer who held office during the period from the day of Company's Ordinary General Meeting of Shareholders held on March 29, 2023 until the day of the Company's Ordinary General Meeting of Shareholders to be held in March 2026 (hereinafter "subject period"), and to the Director of Ebara Environmental Plant Co., Ltd., who held office from the day of the Ordinary General Meeting of Shareholders of the said company held on March 16, 2023 until the day of the Ordinary General Meeting of Shareholders of the said company to be held in March 2026 (hereinafter "subject period").

(4) Payment Method of PSU by shares

Payments of PSU by shares to the Company's Executive Officers will use the method in which the Company grants monetary remuneration claims to Executive Officers, and has them invest the monetary remuneration claims in the Company as property contributed in kind so that the Company's common shares are issued or treasury shares are disposed of.

Payments of PSU by shares to the Directors of Ebara Environmental Plant Co., Ltd. will use the method in which Ebara Environmental Plant Co., Ltd. grants monetary remuneration claims to the Directors and the Company undertakes the obligations related to the monetary remuneration claims of the said company, and then has the Directors invest the monetary remuneration claims in the Company as property contributed in kind so that the Company's common shares are issued or treasury shares are disposed of.

The amount of money to be paid in for the Company's common shares to be provided as PSU by shares shall be decided by the Board of Directors within the scope not especially favorable to the officers eligible for payment who receive the common shares, based on either the average closing price of the Company's common shares on the Tokyo Stock Exchange during the month prior to the meeting of the Company's Board of Directors to resolve the third-party allotment related to such common shares, or the closing price of the Company's common shares on the Tokyo Stock Exchange on the business day prior to the date of the Board meeting (if trading was not completed on the same day, the closing price on the most recent trading day), whichever is higher.

Also, if the total number of the issued shares of the Company increases or decreases during the subject period due to a stock consolidation or stock split, the upper limit of shares related to the PSU by shares and the number of shares of the Company per unit shall be adjusted according to the ratio of the stock consolidation or stock split.

(5) Treatment in case an officer eligible for payment is transferred during the subject period

<The Company>

I. In case an Executive Officer newly assumes office as President and Representative Executive Officer during the subject period

If an Executive Officer newly assumes office as Representative Executive Officer, the standard number of unit for the Executive Officer shall be the number obtained by adding the number calculated by the formula below (fractions less than one unit are rounded off) to the Executive Officer's standard number of unit, and then the number of shares individually paid and the amount of money individually paid will be calculated.

(Current President and Representative Executive Officer's standard number of unit－Standard number of unit) × Number of months in President and Representative Executive's office during the subject period (Note) /36

Note: Fractions less than a month are counted as 1 month.

II. In case an Executive Officer retires during the subject period

If an Executive Officer retires during the subject period, the number calculated by the method below (fractions less than one unit are rounded off)) shall be the standard number of unit for the Executive Officer. Also, as for the calculation of the number of shares individually paid and the amount of money individually paid as well as the timing of issuance of shares of the Company and the payment of money, payment will be made in May 2026, in the same way as for the other incumbent Executive Officers, as mentioned in above 4. Calculation Method of Performance-linked Stock Compensation, (2) Calculation method of PSU.

Standard number of unit × Number of months in office during the subject period (Note) /36

Note: Fractions less than a month are counted as 1 month.

Also, in case of dismissal due to disciplinary action, a payment rate of 0% will be used for calculation.

III. In case an Executive Officer who concurrently serves as a Director of a subject subsidiary retires as a Director of the subsidiary during the subject period

If an Executive Officer who concurrently serves as a Director of a subject subsidiary retires as a Director of the subsidiary during the subject period, the standard number of unit for the Executive Officer shall be the number obtained by adding the number calculated by the formula below (fractions less than one unit are rounded off) to the Executive Officer's standard number of unit, and then the number of shares individually paid and the amount of money individually paid will be calculated.

Standard number of unit × (36－Number of months in office as the subsidiary's Director during the subject period (Note)) /36

Note: Fractions less than a month are counted as 1 month.

IV. In case an Executive Officer newly assumes a concurrent Director's position of a subject subsidiary during the subject period

If an Executive Officer newly assumes office as a concurrent Director of a subject subsidiary during the subject period, the standard number of unit for the Executive Officer shall be the number obtained by subtracting the number calculated by the formula below (fractions less than one unit are rounded off) from the Executive Officer's standard number of unit, and then the number of shares individually paid and the amount of money individually paid will be calculated.

Standard number of unit × 50% × Number of months in office as the subsidiary's concurrent Director during the subject period /36

Note: Fractions less than a month are counted as 1 month.

V. In case an Executive Officer retires due to death during the subject period

In lieu of the Company's common shares paid as PSU by shares and money paid as PSU in money, the amount of money calculated by the formula below (fractions less than ¥100 are rounded off) will be paid to the inheritors of the Executive Officer eligible for payment at the time of retirement.

(Standard number of unit × 50% × Number of months in office during the subject period (Note 1) /36) (Note 2) × Share price at the time of retirement (Note 3)

Notes: 1. Fractions less than a month are counted as 1 month.
2. Less than 1 unit will be rounded down. Also, 1 unit is 100 shares of the Company's common shares.
3. The average share price of the Company's common shares on the Tokyo Stock Exchange for the month prior to the month of retirement

VI. In case of organizational restructuring, etc. during the subject period

In case the Company's Board of Directors approves a resolution with regard to a merger, or a stock exchange or stock transfer by which the Company becomes a wholly-owned subsidiary, and the resolution will take effect, in lieu of the Company's common shares paid as PSU by shares and money paid as PSU in money, the amount calculated by the formula below (fractions less than ¥100 are rounded off) will be paid to the Executive Officer eligible for payment on the day before the effective date of the said organizational restructuring.

(Standard number of unit (Note 1) × 50% × Number of months from the start of the subject period until the effective date of the said organizational restructuring /36) (Note 2) (Note 3)× the Company's share price (Note 4)

Notes: 1. The standard number of unit for the Executive Officer eligible for payment who was transferred in relation to I. through IV. above will be the standard number of unit adjusted as if no organizational restructuring, etc. had occurred until the end of the subject period.
2. Fractions less than a month are counted as 1 month. As for any retired Executive Officers of the Company not belonging to the Company or subject subsidiary, proportional calculation for the number of months until the effective date of organizational restructuring will not be made.
3. Less than 1 unit will be rounded down. Also, 1 unit is 100 shares of the Company's common shares.
4. The average share price of the Company's common shares on the Tokyo Stock Exchange during the month prior to the month of the Ordinary General Meeting of Shareholders in which the matters related to the said organizational restructuring was approved.

<Ebara Environmental Plant Co., Ltd.>

I. If a Director newly assumes office as President and Representative Director during the subject period

If a Director newly assumes office as President and Representative Director, the standard number of unit for the Director shall be the number obtained by adding the number calculated by the formula below (fractions less than one unit are rounded off) to the Director's standard number of unit, and then the number of shares individually paid and the amount of money individually paid will be calculated.

(Current President and Representative Director's standard number of unit－Standard number of unit) × Number of months in office as President and Representative Director during the subject period (Note) /36

Note: Fractions less than a month are counted as 1 month.

II. In case a Director retires during the subject period

The number calculated by the method below (fractions less than one unit are rounded off) shall be the standard number of unit for the Director. Also, as for the calculation of the number of shares individually paid and the amount of money individually paid as well as the timing of issuance of the Company's shares and payment of money, payment will be made in May 2026, in the same way as for the other incumbent Directors, as mentioned in above 4. Calculation Method of Performance-linked Stock Compensation, (2) Calculation method of PSU.

Standard number of unit (A. above) × Number of months in office during the subject period (Note) /36

Note: Fractions less than a month are counted as 1 month.

Also, in case of dismissal due to disciplinary action, a payment rate of 0% will be used for calculation.

III. In case a Director retires due to death during the subject period

In lieu of the Company's common shares paid as PSU by shares and money paid as PSU in money, the amount of money calculated by the formula below (fractions less than ¥100 are rounded off) will be paid to the inheritors of the Director eligible for payment at the time of retirement.

(Standard number of unit × 50% × Number of months in office during the subject period (Note 1) /36) (Note 2) × Share price at the time of retirement (Note 3)

Notes: 1. Fractions less than a month are counted as 1 month.
2. Less than 1 unit will be rounded down. Also, 1 unit is 100 shares of the Company's common shares.
3. The average share price of the Company's common shares on the Tokyo Stock Exchange for the month prior to the month of retirement

IV. In case of organizational restructuring, etc. during the subject period

In case the Company's Board of Directors approves a resolution with regard to a merger, or a stock exchange or stock transfer by which the Company becomes a wholly-owned subsidiary, and the resolution will take effect, in lieu of the Company's common shares paid as PSU by shares and money paid as PSU in money, the amount calculated by the formula below (fractions less than ¥100 are rounded off) will be paid to the Director eligible for payment on the day before the effective date of the said organizational restructuring.

(Standard number of unit (Note 1) × 50% × Number of months from the start of the subject period until the effective date of the said organizational restructuring / 36) (Note 2) (Note 3) × the Company's share price (Note 4)

Notes: 1. The standard number of unit for the Director eligible for payment who was transferred in relation to I. through III. above will be the standard number of unit adjusted as if no organizational restructuring, etc. had occurred until the end of the subject period.

2. Fractions less than a month are counted as 1 month. As for newly appointed Directors belonging or not belonging to the Company or subject subsidiary and retired Directors not belonging to the Company or subject subsidiary, proportional calculation for the number of months until the effective date of organizational restructuring will not be made.

3. Less than 1 unit will be rounded down. Also, 1 unit is 100 shares of the Company's common shares.

4. The average share price of the Company's common shares on the Tokyo Stock Exchange during the month prior to the month of the Ordinary General Meeting of Shareholders in which the matters related to the said organizational restructuring was approved.

(iv) Total Amount of Compensation by Category of Position and Type of Compensation, as well as the Number of Eligible Officers

i) Amount of Compensation Paid to Directors and Executive Officers

Category of Position	Total amount of compensation, etc. (millions of yen)	Total amount of compensation, etc. by type of compensation (millions of yen)					Number of eligible officers (persons)
		Basic compensation	Short-term performance-linked compensation	Restricted stock compensation	Performance-linked stock compensation	Others	
Director (excluding Independent Director)	130	100	–	30	(0)	–	2
Executive Officer	991	401	263	86	225	15	19
Independent Director	130	105	–	25	–	–	8

Notes: 1. The above shows the compensation paid to Directors and Executive Officers as of December 31, 2022 according to their term of office for the fiscal year under review, and the compensation paid to one Director who retired at the conclusion of the 157th Ordinary General Meeting of Shareholders held on March 29, 2022 and four Executive Officers who retired at the conclusion of the meeting of the Board of Directors held on the same day, from January 2022 to the time of their retirement.

2. Compensation paid to President and Representative Executive Officer concurrently serving as Director is shown in the column for Executive Officers.

3. Amount of compensation paid to Executive Officers includes ¥126 million (Base compensation: ¥61 million, Short term performance-linked compensation: ¥34 million, Performance-linked stock compensation: ¥15 million and Others: ¥15 million) as compensation that subsidiaries paid to Executive Officers who served concurrently as the officers of the subsidiaries.

4. Short term performance-linked compensation for Executive Officers is linked to the preset individual targets as well as to the company-wide or business-level performance. The achievement rate against the targets is evaluated and the individual amount is determined after deliberations at the Compensation Committee.

5. Short-term performance-linked compensation shown is the total amount of short-term performance-linked compensation for the fiscal year under review (to be paid in March 2023), to Executive Officers in office as of December 31, 2022.

6. Restricted stock compensation shown represents the amount of restricted stock compensation paid in the fiscal year under review as well as the portion of the restricted stock compensation paid in the previous fiscal years that should be recorded as an expense in the fiscal year under review.

7. Performance-linked stock compensation shown represents the portion of performance-linked stock compensation to be paid in May 2023 that should be recorded as an expense in the fiscal year under review. The amount of the above compensation for the fiscal year under review has been calculated using the latest share price of the Company and the consolidated ROIC in the management plan for the fiscal year ended December 31, 2022, the final fiscal year of the medium-term management plan E-Plan 2022, and adding the difference between the amount recorded in the previous

fiscal year and the amount recorded in the fiscal year under review.

8. "Others" shows the total of ¥10 million, consisting of the portion of performance-linked stock compensation scheduled to be paid in 2023 by a subsidiary to the Officer who retired in 2022 that should be recorded as an expense in the fiscal year under review, and pension contributions of ¥5 million paid in the fiscal year under review.

ii) Total Amount of Consolidated Compensation, etc. by Officer of the Reporting Company

Name	Total amount of compensation, etc. (millions of yen)	Category of Company	Total amount of compensation, etc. by type of compensation (millions of yen)			
			Basic compensation	Short-term performance-linked compensation	Restricted stock compensation	Performance-linked stock compensation
President, Representative Executive Officer Masao Asami	143	Reporting company	54	34	16	38

Notes: 1. Short-term performance-linked compensation shown is the total amount of short-term performance-linked compensation for the fiscal year under review (to be paid in March 2023).

2. Restricted stock compensation shown represents the amount of restricted stock compensation paid in the fiscal year under review as well as the portion of the restricted stock compensation paid in the previous fiscal years that should be recorded as an expense in the fiscal year under review.

3. Performance-linked stock compensation shown represents the portion of performance-linked stock compensation to be paid in May 2023 that should be recorded as an expense in the fiscal year under review. The amount of the above compensation for the fiscal year under review has been calculated using the latest share price of the Company and the consolidated ROIC in the management plan for the fiscal year ended December 31, 2022, the final fiscal year of the medium-term management plan E-Plan 2022, and adding the difference between the amount recorded in the previous fiscal year and the amount recorded in the fiscal year under review.

iii) Significant Items of Employee Salaries Paid to Officers Concurrently Serving as Employees

Not applicable.

(5) Shareholdings

(i) Standards for and Views on Classification of Investment Shares

The Company classifies investment shares by holding purpose into pure investment shares only for the purpose of receiving returns from share price fluctuations and/or dividends and other investment shares for the purpose of maintaining and strengthening business relationships. Among other investment shares, the Company also classifies listed shares as specified investment shares and shares other than those as unlisted shares.

Regarding shares with voting rights exercisable based on the provisions of agreements such as trust agreements or laws, the Company classifies them as deemed holdings of investment shares.

(ii) Investment Shares Held for Purposes Other Than Pure Investment

i) Shareholding policy, method of verification of the rationale for shareholdings, and details of verification by the Board of Directors of the appropriateness of shareholdings in individual issues

Shareholding policy, method of verification of the rationale for shareholdings:

The Company holds investment shares held for purposes other than pure investment (listed shares only) and deemed holdings of investment shares only when it deems business alliances with investees through shareholdings will help enhance the Group's corporate value. The Board of Directors regularly reviews the following perspectives to verify the rationale for shareholdings. The Company disposes of investment shares as needed by selling them or taking other actions when they are deemed to be less reasonable.

Perspectives to verify the rationale for shareholdings:

a. A business alliance with an investee is important, and maintaining the relationship with them is necessary.

b. Returns and risks of shareholdings are worth the capital cost.

As of December 31, 2022, the Company does not hold specified investment shares or deemed holdings of investment shares.

ii) Number of issues and carrying amount

	Number of issues (Issue)	Total carrying amount on balance sheet (millions of yen)
Unlisted shares	27	1,881
Shares other than unlisted shares	–	–

Issues whose number of shares increased during the fiscal year ended December 31, 2022

	Number of issues (Issue)	Total acquisition cost for the shares increased (millions of yen)	Reason for increase in number of shares
Unlisted shares	1	300	Additional investment to strengthen partnerships with venture companies
Shares other than unlisted shares	–	–	–

Issues whose number of shares decreased during the fiscal year ended December 31, 2022

	Number of issues (Issue)	Total selling price for the shares decreased (millions of yen)
Unlisted shares	5	197
Shares other than unlisted shares	–	–

iii) Number and carrying amount of specified investment shares and deemed holdings of investment shares by issue

Not applicable.

(iii) Investment Shares Held for Pure Investment

Not applicable.

(iv) Investment Shares Whose Holding Purpose Was Changed from Pure Investment to Other Than Pure Investment during the Fiscal Year under Review

Not applicable.

(v) Investment Shares Whose Holding Purpose Was Changed from Other Than Pure Investment to Pure Investment during the Fiscal Year under Review

Not applicable.

V. Financial Information

1. Basis for preparation of consolidated financial statements

   The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") pursuant to the provisions of Article 93 of the "Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Order No. 28 of 1976; hereinafter the "Regulation on Consolidated Financial Statements").

2. Audit certification

   The Company's consolidated financial statements for the fiscal year ended December 31, 2022 were audited by Ernst & Young ShinNihon LLC, in accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Special measures to ensure the appropriateness of consolidated financial statements

   The Company has taken special measures to ensure the appropriateness of consolidated financial statements, etc. Specifically, the Company has joined the Financial Accounting Standards Foundation and participates in seminars hosted by the foundation to establish a system that allows the Company to understand accounting standards properly.

4. Establishment of a system to enable the proper preparation of consolidated financial statements, etc. in accordance with IFRS

   The Company obtains press releases and standards issued by the International Accounting Standards Board from time to time to understand the latest standards. The Company has prepared the Group accounting manual in accordance with IFRS and developed a system to enable the proper preparation of consolidated financial statements, etc. under IFRS.

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

(i) Consolidated statement of financial position

(Millions of yen)

	Notes No.	As of December 31, 2021	As of December 31, 2022
Assets			
Current assets			
Cash and cash equivalents	7	136,488	116,137
Trade and other receivables	8, 35	130,121	151,665
Contract assets		86,887	100,420
Inventories	9	121,389	181,337
Income taxes receivable		605	1,137
Other financial assets	10, 35	3,267	3,540
Other current assets	18	21,173	26,456
Total current assets		499,934	580,694
Non-current assets			
Property, plant and equipment	11, 14	161,392	165,715
Goodwill and intangible assets	12	23,204	43,333
Investments accounted for using equity method	16	7,153	7,153
Deferred tax assets	17	12,665	13,720
Other financial assets	10, 35	6,241	6,783
Other non-current assets	18	9,144	10,648
Total non-current assets		219,801	247,354
Total assets		719,736	828,049

(Millions of yen)

	Notes No.	As of December 31, 2021	As of December 31, 2022
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	19, 35	162,558	195,391
Contract liabilities		49,771	63,168
Bonds, borrowings and lease obligations	20, 35	56,578	46,772
Income taxes payable		6,337	6,140
Provisions	23	14,769	12,760
Other financial liabilities	21, 35	98	432
Other current liabilities	22	37,243	44,411
Total current liabilities		327,357	369,078
Non-current liabilities			
Bonds, borrowings and lease liabiliies	20, 35	55,467	72,560
Retirement benefit liability	24	8,413	8,380
Provisions	23	2,488	2,647
Deferred tax liabilities	17	402	2,435
Other financial liabilities	21, 35	123	144
Other non-current liabilities	22	3,829	3,076
Total non-current liabilities		70,723	89,245
Total liabilities		398,080	458,323
Equity			
Share capital	25	79,643	79,804
Capital surplus	25	76,566	76,806
Retained earnings	25	171,720	184,995
Treasury shares	25	(20,189)	(294)
Other components of equity		4,569	18,655
Total equity attributable to owners of parent		312,310	359,966
Non-controlling interests		9,345	9,758
Total equity		321,655	369,725
Total liabilities and equity		719,736	828,049

(ii) Consolidated statement of income

(Millions of yen)

	Notes No.	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Revenue	28	603,213	680,870
Cost of sales		424,571	469,694
Gross profit		178,641	211,175
Selling, general and administrative expenses	29	120,553	137,784
Other income	30	4,131	1,107
Other expenses	30	847	3,925
Operating profit		61,372	70,572
Finance income	32	416	957
Finance costs	32	2,687	2,762
Share of profit (loss) of investments accounted for using equity method	16	1,200	714
Profit before tax		60,302	69,481
Income tax expense	17	13,873	16,775
Profit		46,428	52,705
Profit attributable to			
Owners of parent		43,616	50,488
Non-controlling interests		2,812	2,217
Earnings per share			
Basic earnings per share (Yen)	33	463.44	548.61
Diluted earnings per share (Yen)	33	462.09	547.34

(iii) Consolidated statement of comprehensive income

(Millions of yen)

	Notes No.	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Profit		46,428	52,705
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		2,758	1,512
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income		47	(44)
Share of other comprehensive income of investments accounted for using equity method		86	(9)
Total of items that will not be reclassified to profit or loss		2,893	1,458
Items that may be reclassified to profit or loss			
Cash flow hedges		94	(59)
Exchange differences on translation of foreign operations		6,602	14,497
Total of items that may be reclassified to profit or loss		6,697	14,437
Total other comprehensive income, net of tax	34	9,591	15,896
Total		56,020	68,602

Comprehensive income attributable to			
Owners of parent		52,529	66,019
Non-controlling interests		3,490	2,582

(iv) Consolidated statement of changes in equity

Fiscal year ended December 31, 2021

(Millions of yen)

	Notes No.	Equity attributable to owners of parent					
						Other components of equity	
		Share capital	Capital surplus	Retained earnings	Treasury shares	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance at beginning of period		79,451	75,987	136,629	(178)	(1,746)	(520)
Hyperinflation adjustment		-	-	-	-	-	-
Equity after hyperinflation adjustment		79,451	75,987	136,629	(178)	(1,746)	(520)
Changes of the year							
Comprehensive income							
Profit		-	-	43,616	-	-	-
Other comprehensive income		-	-	-	-	5,926	77
Total		-	-	43,616	-	5,926	77
Transactions with owners							
Dividends	26	-	-	(10,455)	-	-	-
Purchase of treasury shares	25	-	-	(88)	(20,010)	-	-
Disposal of treasury shares	25	-	0	-	0	-	-
Cancellation of treasury shares		-	-	-	-	-	-
Share-based payment transactions	27	191	578	-	-	-	-
Change in scope of consolidation		-	-	-	-	-	-
Acquisition of non-controlling interests		-	-	-	-	-	-
Transfer from other components of equity to retained earnings		-	-	2,018	-	-	795
Total transactions with owners		191	578	(8,525)	(20,010)	-	795
Balance at end of period		79,643	76,566	171,720	(20,189)	4,179	351

(Millions of yen)

	Notes No.	Equity attributable to owners of parent: Other components of equity: Cash flow hedges	Remeasurements of defined benefit plans	Total	Total equity attributable to owners of parent	Non-controlling interests	Total
Balance at beginning of period		(56)	-	(2,324)	289,564	7,312	296,877
Hyperinflation adjustment		-	-	-	-	-	-
Equity after hyperinflation adjustment		(56)	-	(2,324)	289,564	7,312	296,877
Changes of the year							
Comprehensive income							
Profit		-	-	-	43,616	2,812	46,428
Other comprehensive income		94	2,814	8,912	8,912	678	9,591
Total		94	2,814	8,912	52,529	3,490	56,020
Transactions with owners							
Dividends	26	-	-	-	(10,455)	(1,458)	(11,914)
Purchase of treasury shares	25	-	-	-	(20,099)	-	(20,099)
Disposal of treasury shares	25	-	-	-	0	-	0
Cancellation of treasury shares		-	-	-	-	-	-
Share-based payment transactions	27	-	-	-	770	-	770
Change in scope of consolidation		-	-	-	-	0	0
Acquisition of non-controlling interests		-	-	-	-	-	-
Transfer from other components of equity to retained earnings		-	(2,814)	(2,018)	-	-	-
Total transactions with owners		-	(2,814)	(2,018)	(29,784)	(1,458)	(31,242)
Balance at end of period		38	-	4,569	312,310	9,345	321,655

Fiscal year ended December 31, 2022

(Millions of yen)

	Notes No.	Equity attributable to owners of parent					
						Other components of equity	
		Share capital	Capital surplus	Retained earnings	Treasury shares	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance at beginning of period		79,643	76,566	171,720	(20,189)	4,179	351
Hyperinflation adjustment	41	-	-	(539)	-	-	-
Equity after hyperinflation adjustment		79,643	76,566	171,180	(20,189)	4,179	351
Changes of the year							
Comprehensive income							
Profit		-	-	50,488	-	-	-
Other comprehensive income		-	-	-	-	14,134	(46)
Total		-	-	50,488	-	14,134	(46)
Transactions with owners							
Dividends	26	-	-	(18,216)	-	-	-
Purchase of treasury shares	25	-	-	-	(8)	-	-
Disposal of treasury shares	25	-	0	-	0	-	-
Cancellation of treasury shares	25	-	(0)	(19,902)	19,903	-	-
Share-based payment transactions	27	160	245	-	-	-	-
Change in scope of consolidation		-	-	-	-	-	-
Acquisition of non-controlling interests		-	(4)	-	-	-	-
Transfer from other components of equity to retained earnings		-	-	1,445	-	-	57
Total transactions with owners		160	240	(36,674)	19,894	-	57
Balance at end of period		79,804	76,806	184,995	(294)	18,314	362

(Millions of yen)

	Notes No.	Equity attributable to owners of parent: Other components of equity: Cash flow hedges	Equity attributable to owners of parent: Other components of equity: Remeasurements of defined benefit plans	Equity attributable to owners of parent: Total	Total equity attributable to owners of parent	Non-controlling interests	Total
Balance at beginning of period		38	-	4,569	312,310	9,345	321,655
Hyperinflation adjustment	41	-	-	-	(539)	-	(539)
Equity after hyperinflation adjustment		38	-	4,569	311,770	9,345	321,116
Changes of the year							
Comprehensive income							
Profit		-	-	-	50,488	2,217	52,705
Other comprehensive income		(59)	1,502	15,531	15,531	365	15,896
Total		(59)	1,502	15,531	66,019	2,582	68,602
Transactions with owners							
Dividends	26	-	-	-	(18,216)	(2,167)	(20,383)
Purchase of treasury shares	25	-	-	-	(8)	-	(8)
Disposal of treasury shares	25	-	-	-	0	-	0
Cancellation of treasury shares	25	-	-	-	-	-	-
Share-based payment transactions	27	-	-	-	406	-	406
Change in scope of consolidation		-	-	-	-	0	0
Acquisition of non-controlling interests		-	-	-	(4)	(2)	(7)
Transfer from other components of equity to retained earnings		-	(1,502)	(1,445)	-	-	-
Total transactions with owners		-	(1,502)	(1,445)	(17,823)	(2,169)	(19,993)
Balance at end of period		(21)	-	18,655	359,966	9,758	369,725

(v) Consolidated statement of cash flows

(Millions of yen)

	Notes No.	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Cash flows from operating activities			
Profit before tax		60,302	69,481
Depreciation and amortization		21,435	24,068
Impairment losses		198	1,848
Interest and dividend income		(387)	(613)
Interest expenses		1,298	2,326
Foreign exchange loss (gain)		5,148	1,919
Share of loss (profit) of investments accounted for using equity method		(1,200)	(714)
Loss (gain) on sale of fixed assets		(2,991)	(92)
Decrease (increase) in trade and other receivables		(862)	(17,189)
Decrease (increase) in contract assets		(5,968)	(10,470)
Decrease (increase) in inventories		(14,224)	(54,411)
Increase (decrease) in trade and other payables		17,757	27,159
Increase (decrease) in contract liabilities		6,691	11,402
Increase (decrease) in provisions		15	(2,049)
Increase or decrease in retirement benefit asset or liability		(425)	539
Other		(2,121)	2,895
Subtotal		84,665	56,098
Interest received		363	592
Dividends received		1,122	713
Interest paid		(1,369)	(1,965)
Income taxes paid		(11,923)	(18,370)
Net cash provided by (used in) operating activities		72,858	37,070
Cash flows from investing activities			
Payments into time deposits		(4,092)	(4,934)
Proceeds from withdrawal of time deposits		3,958	5,165
Purchase of investment securities		(20)	(325)
Proceeds from sales and redemption of investment securities		3,085	194
Purchase of property, plant and equipment, and intangible assets		(25,755)	(24,347)
Proceeds from sale of property, plant and equipment		1,575	557
Purchase of shares of subsidiaries resulting in change in scope of consolidation	6	(10,375)	(14,675)
Other		263	41
Net cash provided by (used in) investing activities		(31,361)	(38,324)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	36	8,752	(12,654)
Proceeds from long-term borrowings	36	5,191	11,138
Repayments of long-term borrowings	36	(6,362)	(6,513)
Repayments of lease liabilities	36	(5,058)	(5,321)
Proceeds from issuance of bonds	36	-	20,000
Proceeds from issuance of shares		0	0
Redemption of bonds		-	(10,000)
Purchase of treasury shares		(20,099)	(8)
Dividends paid		(10,455)	(18,216)
Dividends paid to non-controlling interests		(1,458)	(2,167)
Payments for acquisition of interests in subsidiaries from non-controlling interests		-	(7)
Other		0	1
Net cash provided by (used in) financing activities		(29,489)	(23,749)
Effect of exchange rate changes on cash and cash equivalents		3,936	4,742
Hyperinflation adjustment	41	-	(89)
Net increase (decrease) in cash and cash equivalents		15,944	(20,351)

(Millions of yen)

	Notes No.	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Cash and cash equivalents at beginning of period	7	120,544	136,488
Cash and cash equivalents at end of period	7	136,488	116,137

Notes to Consolidated Financial Statements

1. Reporting entity

EBARA CORPORATION (hereinafter the "Company") is a company incorporated in Japan with a registered head office address in Ota-ku, Tokyo. The consolidated financial statements for the current fiscal year (from January 1, 2022, to December 31, 2022) are comprised of the accounts of the Company and its consolidated subsidiaries (hereinafter the "Group"), as well as its interests in associates and jointly controlled entities. The Group is engaged in the following three businesses: the Fluid Machinery & Systems Business, which specializes in rotary machineries such as pumps and compressors; the Environmental Plants Business, which includes municipal waste incineration facilities and other environmental plants; and the Precision Machinery Business, which manufactures machinery and equipment for semiconductor manufacturing equipment.

Details of the Group's main business lines and activities are provided in "5. Operating segments."

2. Basis of preparation

(1) Compliance with IFRS

The Group's consolidated financial statements have been prepared in accordance with IFRS. Since the Company satisfies the requirements of a specified company complying with designated international accounting standards provided in Article 1-2 of the Regulation on Consolidated Financial Statements, it has adopted the provisions of Article 93 of the same Regulation.

The Group's accounting policies comply with IFRS effective as of December 31, 2022, except for those IFRS standards that have not been adopted early.

The consolidated financial statements were approved on March 29, 2023, by President, Representative Executive Officer, CEO & COO Masao Asami.

(2) Basis of measurement

The Group's consolidated financial statements have been prepared on a historical cost basis, except for financial instruments and other items described in "3. Significant accounting policies" and "41. Hyperinflation adjustment."

(3) Functional currency and presentation currency

The Group's consolidated financial statements are presented in Japanese yen, the Company's functional currency, and amounts less than one million yen have been rounded down to the nearest million yen.

3. Significant accounting policies

(1) Basis of consolidation

(i) Subsidiaries

A subsidiary is an entity controlled by the Group. The Group controls an investee if it not only has power over the investee and exposure to variable returns from its involvement with the investee but can also use its power to affect its returns from the investee.

The Group includes non-consolidated financial statements of a subsidiary in the consolidated financial statements from when it gains control until when it ceases to control the subsidiary. If control continues after the disposal of a portion of the Group's interest in a subsidiary, the change in the Group's interest is accounted for as an equity transaction, and the difference between the adjusted amount of the non-controlling interest and the fair value of the consideration is recognized directly in equity as equity attributable to owners of the parent. When the Group loses control of a subsidiary, it recognizes gains or losses arising from the loss of control in profit or loss.

The balances of receivables, payables, and transactions within the Group, as well as unrealized gains and losses arising from transactions within the Group are eliminated in preparing the consolidated financial statements.

(ii) Associates and joint ventures

An associate is an entity over which the Group has significant influence over its financial and operating policy decisions but not joint control or control of those policies. Investments in associates are accounted for using the equity method.

A joint venture is an entity for which multiple parties, including the Group, share the contractually agreed control of an arrangement, and decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint ventures are accounted for using the equity method.

Investments in associates and joint ventures are initially recognized at cost. The Group's interests in profit (loss) and other comprehensive income of associates are recognized as changes in investments in associates and joint ventures from when it gains significant influence until when it loses significant influence.

The accounting policies of the companies accounted for using the equity method have been revised as necessary to ensure consistency with the accounting policies adopted by the Group.

If the Group's interests in loss exceed an investment in the companies accounted for using the equity method, the Group reduces the carrying amount of the investment to zero and does not recognize any further losses unless the Group assumes or pays obligation on behalf of the investee.

(iii) Business combinations

The Group accounts for business combinations using the acquisition method. The Group initially measures non-controlling interests as its proportionate interests in the acquiree's net identifiable assets at the acquisition date.

If the total amount of fair value of the consideration paid, the amount of non-controlling interests of the acquiree, and, in case of a step acquisition, the acquisition-date fair value of equity held by the Company in the acquiree pre-acquisition exceeds the net value of identifiable assets and liabilities assumed at the acquisition date, the excess is recognized as goodwill. On the other hand, if the total amount of consideration is lower than the net value of identifiable assets and liabilities, the difference is recognized as a gain in profit or loss.

Acquisition-related costs are expensed as incurred, except for costs to issue debt or equity instruments.

If the initial accounting of a business combination is incomplete by the end of the fiscal year in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. If the Group obtains information about facts and circumstances that existed as at the acquisition date and, if known, would have affected the measurement of the amount recognized as of that date during the period in which the measurement of the amounts recognized is deemed to have been affected (hereinafter, the "measurement period"), the Group reflects such information and retrospectively adjusts the provisional amounts recognized at the acquisition date. This new information may result in an additional recognition of assets and liabilities. The measurement period does not exceed one year from the acquisition date.

(2) Foreign exchange translation

(i) Foreign currency transaction

Foreign currency transactions are translated into each functional currency of the Group companies using exchange rates as of the transaction date. Monetary assets and liabilities denominated in foreign currency are translated into the functional currency at exchange rates as of the reporting date. Non-monetary assets and liabilities measured at fair value in foreign currency are translated into the functional currency at exchange rates as of the fair value measurement date. Non-monetary items measured at cost denominated in foreign currency are translated at exchange rates as of the transaction date. The amount of exchange difference on foreign currency translation is normally recognized in profit or loss and presented as finance costs. If a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income.

(ii) Financial statements of foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisitions, are translated into the presentation currency at exchange rates as of the end of the reporting period. Revenue and costs of foreign operations are translated at the average rate for the reporting period, except for when exchange rates fluctuate significantly. Exchange difference in foreign currency translation is recognized in other comprehensive income and accumulated in translation adjustments except for the component allocated to non-controlling interests. When all or part of foreign operations are disposed of, and control, significant influence or joint control is lost, the cumulative amounts of foreign currency translation adjustments related to such foreign operations are reclassified to profit or loss as part of a gain or loss on disposal. When the Group partly disposes of equity in a subsidiary but retains control, part of the cumulative amount is redistributed to non-controlling interests as appropriate. When the Group only partly disposes of an associate or a joint venture while retaining control, part of the cumulative amount is reclassified to profit or loss as appropriate. Revenues and expenses of subsidiaries in a hyperinflationary economy are translated into the presentation currency at the exchange rates prevailing at the fiscal year-end through the application of hyperinflationary accounting. Details of hyperinflationary accounting are stated in "41. Hyperinflation adjustment.”

(3) Financial instruments

(i) Non-derivative financial assets

The Group initially recognizes trade receivables on the date when they arise. The Group initially recognizes other financial assets on the transaction date when the Group becomes a party to the contractual provisions of these financial instruments.

The Group derecognizes a financial asset if the contractual rights to the cash flows from the financial asset expire or when the Group transfers the contractual rights to receive the cash flows of the financial asset in transactions in which the Group substantially transfers all the risks and rewards of ownership of the financial asset. In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and does not retain control of the financial asset, the Group derecognizes the asset.

The classification of financial assets and the measurement models are outlined as follows:

i) Financial assets measured at amortized cost

Financial assets which satisfy both of the following conditions are classified as financial assets measured at amortized cost:

・ The objective of the entity’s business model is to hold the financial asset to collect the contractual cash flows.
・ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, financial assets measured at amortized cost are measured at their fair value plus transaction costs directly attributable to the acquisition. After initial recognition, impairment losses are deduced from the gross carrying amount to which the effective interest method is applied.

ii) Financial assets measured at fair value through profit or loss

Financial assets, except for those measured at amortized cost, are classified as financial assets measured at fair value.

Financial assets measured at fair value other than those classified as financial assets measured at fair value through other comprehensive income are classified as those measured at fair value through profit or loss.

Financial assets measured at fair value through profit or loss are measured at their fair value upon initial recognition, and transaction costs directly attributable to their acquisition are recognized in profit or loss as incurred. After initial recognition, the financial assets are measured at fair value with subsequent changes recognized in profit or loss.

iii) Financial instruments measured at fair value through other comprehensive income

Those which satisfy both of the following conditions of debt instruments measured at fair value are classified as financial assets measured at fair value through other comprehensive income.

・ The asset is held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets.
・ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, financial assets measured at fair value through other comprehensive income are measured at their fair value plus transaction costs directly attributable to the acquisition. Interest, foreign exchange gain or loss, and impairment losses are recognized in profit or loss, and other changes in fair value are recognized in other comprehensive income.

At initial recognition, entities are permitted to make an irrevocable election to present in other comprehensive income any subsequent changes in the fair value of an investment in an equity instrument not held for trading. Accordingly, the Group makes such a designation on an instrument-by-instrument basis and classifies it as an equity instrument measured at fair value through other comprehensive income.

At initial recognition, equity instruments measured at fair value through other comprehensive income are measured at their fair value plus transaction costs directly attributable to the acquisition. After the initial recognition, the equity instruments are measured at fair value with any subsequent changes recognized in other comprehensive income. If the equity instruments are derecognized (or their fair value declines significantly), the amounts measured and recognized through other comprehensive income are reclassified to retained earnings on a cumulative basis instead of reclassified to profit or loss. Dividends received are recognized in profit or loss unless they clearly indicate the recovery of costs of investments.

(ii) Impairment of non-financial assets

The Group recognizes a provision for bad debts corresponding to expected credit losses on financial assets measured at amortized cost. The Group determines at the end of the reporting period whether or not credit risk has increased significantly since initial recognition. If the credit risk of a financial instrument has increased significantly since initial recognition, a provision for bad debts for such financial assets is measured at the amount equal to lifetime expected credit losses. For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses. Notwithstanding the above, the Group always measures the provision for bad debts equal to lifetime expected credit losses for trade receivables, contract assets, and lease receivables that do not contain a significant financing component.

The Group judges whether or not there is any significant increase in credit risk based on changes in the risk of default. A default is defined as a situation where all or part of a financial asset is not reasonably expected to be collected because a debtor has a significant issue with the payment of contractual cash flows. To determine whether the risk of default has changed or not, the Group mainly considers credit ratings by outside credit rating agencies and past-due information. If the Group determines the credit risk of a financial instrument is low at the end of the reporting period, the risk is deemed not to have significantly increased since the initial recognition. The Group determines that credit risk has increased significantly if the payment is, in principle, more than 30 days overdue. To determine changes in credit risk, the Group considers reasonable and supportable information available without undue cost or effort. The Group determines that there is no significant increase in credit risk if the presumption is rebuttable based on the said information.

The Group determines that the receivables are credit impaired if the debtor's financial position deteriorates considerably or the debtor commences legal liquidation proceedings primarily due to bankruptcy. For any debt found to be uncollectible in the future, the Group directly reduces the carrying amount of the financial asset and the corresponding amount in the provision for bad debts. The provision for bad debts for financial assets is recognized in profit or loss. When an event occurs that reduces the provision for bad debts, its reversal is recognized in profit or loss.

The Group measures expected credit losses of a financial instrument in a way that reflects:

i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,

ii) time value of money, and

iii) reasonable and supportable information available without undue cost or effort at the reporting date about past events, current conditions, and forecast of future economic conditions.

(iii) Non-derivative financial liabilities

The Group initially recognizes financial liabilities on the date when they arise and measure them at amortized cost. At initial recognition, the financial liabilities are measured at their fair value minus transaction costs that are directly attributable to the issue of the liabilities. After initial recognition, they are measured at amortized cost based on the effective interest method.

Financial liabilities are derecognized when financial debts are extinguished; in other words, when debts specified in the contracts are discharged, canceled, or expired.

(iv) Derivatives and hedge accounting

The Group utilizes derivative transactions such as forward exchange contracts and interest rate swaps to hedge risks of fluctuation in foreign exchange and interest rates.

The Group formally designates and documents risk management objectives and strategies regarding hedging relationships and hedge transactions at their inception. The document identifies the hedging instruments, items, or transactions to be hedged, the nature of risks to be hedged, and the methods to evaluate the effectiveness of hedging instruments to offset the exposure of hedged items to changes in fair value or cash flows attributable to the risks being hedged. While the Group deems these hedging transactions are extremely effective to offset changes in fair values or cash flows attributable to the risks being hedged, assessment has been continued to determine whether they were, in effect, extremely effective throughout the accounting period they were designated as hedge instruments.

Derivatives are initially recognized at fair value. After initial recognition, they are measured at fair value, with any subsequent changes being accounted for as follows:

i) Fair value hedges

Changes in the fair value of derivatives as a hedging instrument are recognized in profit or loss. Changes in the fair value of a hedged item attributable to the risk being hedged are recognized in profit or loss by adjusting the carrying amount of the hedged item.

ii) Cash flow hedges

The portion of changes in the fair value of derivatives as a hedging instrument determined to be an effective hedge is recognized in other comprehensive income.

The amount recognized in other comprehensive income is transferred from other components of equity to profit or loss in the reporting period when the transaction being hedged affects profit or loss. However, if a hedge of a forecast transaction subsequently results in recognition of a non-financial asset or a non-financial liability, the amount recognized in other comprehensive income is accounted for as an adjustment to the initial carrying amount of the non-financial asset or non-financial liability.

If a hedging instrument expires or is sold, terminated, or exercised, and the instrument no longer meets the qualifying criteria for hedge accounting even after adjusting the hedge ratio, the Group discontinues hedge accounting prospectively. If a forecast transaction is no longer expected, the amount recognized as other comprehensive income is immediately reclassified from other components of equity to profit or loss.

iii) Derivatives not designated as a hedge

Changes in the fair value of such derivatives are recognized in profit or loss.

(v) Offsetting financial assets and financial liabilities

A financial asset and a financial liability are presented on a net basis after offsetting only when the Group has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

(4) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible to cash with a maturity of three months or less from the date of acquisition and are subject to an insignificant risk of changes in value.

(5) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories includes all costs of purchase, manufacturing and processing costs, and other costs incurred in bringing the inventories to their present location and condition and allocated based mainly on the weighted average method (or the moving average method for Precision Machinery). Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(6) Property, plant and equipment (excluding right-of-use assets):

(i) Recognition and measurement

The Group adopts the cost model for measuring property, plant and equipment after recognition. It is presented at cost less any accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment comprises any costs directly related to the acquisition, estimated costs for dismantling and removing the asset and restoring the site on which it is located, and borrowing costs attributable to a qualifying asset.

Expenditures incurred after the acquisition of property, plant and equipment for ordinary repairs and maintenance are expensed as incurred, whereas those for major replacements and improvements are capitalized when the expenditure is expected to bring future economic benefits to the Group.

(ii) Depreciation

Property, plant and equipment, excluding land and construction in progress, are depreciated from when they are available for use on a straight-line basis over their respective estimated useful lives. The estimated useful lives of major property, plant and equipment are as follows:

Buildings and structures	2 to 60 years
Machinery, equipment, and vehicles	2 to 38 years

The depreciation method, estimated useful lives, and residual values are reviewed at the end of each reporting period and revised as necessary.

(7) Goodwill and intangible assets

(i) Goodwill

For the measurement of goodwill at initial recognition, see “(1) Basis of consolidation, (iii) Business combinations.” Goodwill is not amortized but tested for impairment at the same time every year and whenever there is any indication that it may be impaired. While impairment losses on goodwill are recognized in profit or loss, they are not reversed.

After the initial recognition, goodwill is presented at cost less any accumulated impairment losses.

(ii) Intangible assets (excluding right-of-use assets):

Intangible assets acquired separately are measured at cost. The costs of intangible assets acquired through business combinations are measured at fair value on the date of the business combination.

The Group adopts the cost model for the measurement of intangible assets after recognition. It is presented at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets with a finite useful life are amortized on a straight-line basis over their respective estimated useful lives.

The estimated useful lives of major intangible assets are as follows:

Software for internal use	5 years

Intangible assets with an indefinite useful life and those not yet available for use are not amortized, but their estimated recoverable amount is estimated at the same time every year and whenever there is an indication of impairment.

The depreciation method and useful lives are reviewed at the end of each reporting period and revised as necessary.

(8) Leases

(Lessee)

The Group recognizes right-of-use assets and lease liabilities at the commencement date of the lease. The Group assesses whether the contract is, or contains, a lease based on the substance of the contract, even if it does not have a legal form of a lease. The lease term is determined as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Right-of-use assets are initially measured at cost. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease obligation adjusted for any lease payments made at or before the commencement date, less any lease incentives received, with the addition of any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset and restoring the underlying asset or the site on which it is located.

After initial measurement, the right-of-use asset is depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. The estimated useful life of the right-of-use asset is determined in the same way as for property, plant and equipment held by the Company.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date and discounted at the interest rate implicit in the lease. If the interest rate implicit in the lease cannot be readily determined, the Group as lessee uses its incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as a discount rate.

Lease liabilities are remeasured if there is a change in future lease payments resulting from a change in an index or a rate, if there is a change in the amounts expected to be payable under a residual value guarantee, or if there is a change in the assessment on whether to exercise an option to purchase the underlying asset, to extend or terminate the lease. In these remeasurements of lease liabilities, corresponding adjustments are made to the carrying amount of right-of-use assets or recognized in profit or loss if the carrying amount of right-of-use assets is reduced to zero.

Right-of-use assets and lease liabilities are presented in the consolidated statement of financial position under “Property, plant and equipment” and under “Bonds, borrowings and lease liabilities,” respectively.

Short-term leases and leases of low-value assets

The Group has elected not to recognize right-of-use assets or lease liabilities for short-term leases with a lease term of 12 months or less and leases of low-value assets. The Group recognizes lease payments on these leases as expenses on a straight-line basis over the lease term.

(Lessor)

For operating lease transactions, the Group recognizes underlying assets in the consolidated statement of financial position and recognizes lease payments received as profit in the consolidated statement of profit or loss on a straight-line basis over the lease term.

(9) Impairment of non-financial assets

The Group assesses whether there is any indication of impairment on property, plant and equipment as well as intangible assets.

If there is an indication of impairment, the Group measures the recoverable amount of each individual asset or cash-generating unit. Further, the Group does not amortize goodwill, intangible assets with indefinite useful lives, or intangible assets not yet available for use but instead performs an impairment test at the same time every fiscal year and whenever there is an indication of impairment.

In performing the impairment test, the Group aggregates the assets to the smallest group of assets that generates cash inflows from continuing use that are largely independent of those from other assets or groups of assets. As the Group’s corporate assets do not generate independent cash inflows, if there is an indication that a corporate asset may be impaired, the recoverable amount is estimated for the cash-generating unit that includes the corporate asset.

The recoverable amount is determined at the higher of its value in use and its fair value less costs of disposal. The value in use is determined at the present value of the estimated future cash flows discounted at the pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

If the carrying amount of an individual asset or a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized in profit or loss, and the carrying amount of the asset is reduced to the recoverable amount. An impairment loss recognized for a cash-generating unit is first allocated to reduce the carrying amount of goodwill included in the cash-generating unit. Then the carrying amount of other assets in the cash-generating unit is reduced proportionately.

An impairment loss for goodwill is not reversed. An impairment loss for non-financial assets other than goodwill is reversed if there is an indication that the impairment loss may no longer exist or may have been reduced and the recoverable amount exceeds the carrying amount after the write-down. In reversing the impairment loss, the difference between the recoverable amount and the carrying amount is recognized in profit or loss within a range that does not exceed the carrying amount had no impairment losses been recognized for the asset in prior periods.

(10) Employee benefits

(i) Post-employment benefits

(Defined benefit plans)

The Group calculates defined benefit obligations by estimating the amount of future benefits employees earned as consideration for services provided in the prior and current fiscal years and then discounting the estimated amount to the present value. The discount rate is determined by reference to market yields at the end of the fiscal year on high-quality corporate bonds with more or less the same maturity as the Group's defined benefit obligations.

Retirement benefit asset or retirement benefit liability is recognized at the present value of defined benefit obligations less the fair value of plan assets. Service cost and net interest on net defined benefit liability are recognized in profit or loss.

An increase or a decrease arising from remeasurements of defined benefit plans is recognized at a lump sum in other comprehensive income for the period it was incurred and immediately transferred to retained earnings. Past service cost is fully recognized in profit or loss as incurred.

(Defined contribution plans)

For defined contribution plans, contribution payables to defined contribution plans are recognized as expenses when employees provide relevant services.

(ii) Short-term employee benefits

The Group expenses short-term employee benefits at the time when the employees provide relevant services without discounting them.

The Group recognizes bonuses and paid leave costs as a liability at an estimated amount payable under these plans if it has legal or constructive obligations and if the amount can be reliably estimated.

(iii) Other long-term employee benefits

Net obligation to the Group's long-term employee benefit is the amount of future benefits the employees earned as consideration for services provided in prior and current fiscal years. The amount is discounted to the present value. The difference arising from remeasurements is recognized in profit or loss in the period incurred.

(11) Share-based payment transactions

The Company adopts the following share-based payment plan as an incentive to its Directors, Executive Officers, and employees.

(Stock option plan)

Stock options are calculated based on the fair value as of grant dates. They are expensed over the vesting period reflecting the final number of stock options expected to be vested, and the same amount is recognized as an increase in equity. The fair value of a stock option is computed using the Black-Scholes model.

(Restricted stock compensation and performance-linked stock compensation schemes)

The Company has introduced share-based compensation schemes that are equity-settled and cash-settled to raise the motivation for contributing to the sustainable growth of corporate value and sharing value with the shareholders.

For equity-settled share-based compensation, the consideration for services received is measured by reference to the fair value of shares of the Company to be granted. The amount of consideration for services determined is recognized as an expense in profit or loss, with the corresponding amount recognized as an increase in equity.

For cash-settled share-based compensation, the fair value of the payment is recognized as a liability, and the change in fair value of the liability is recognized in profit or loss over the period up to the vesting of an unconditional right to receive payments.

(12) Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount of a provision is determined by discounting the estimated future cash flows to the present value at the pre-tax rate that reflects the time value of money and the risks specific to the liability. Any increase in the provision reflecting the effect of the passage of time is recognized as finance costs.

(13) Revenue

For contracts with customers, the Group recognizes revenue based on the following five-step approach.

Step 1: Identify the contract(s) with the customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies performance obligations

The Group is engaged in manufacturing, sales, construction, maintenance, and other activities in its Fluid Machinery & Systems Business, which specializes in rotary machineries such as pumps and compressors; the Environmental Plants Business, which includes municipal waste incineration facilities and other environmental plants; and the Precision Machinery Business, which manufactures machinery and equipment for semiconductor manufacturing equipment.

(i) Fluid Machinery & Systems Business

In the Fluid Machinery & Systems Business, the Group primarily engages in manufacturing, sales, construction, and maintenance services related to custom and standard pumps, compressors, turbines, chillers, cooling towers and related systems, blowers, and control equipment for electricity, telecommunications, and energy.

For the manufacture and sale of products in the Fluid Machinery & Systems Business, based on a comprehensive assessment of indicators of the transfer of control, such as the legal title of the product, physical possession of the product, transfer of significant risks and rewards of ownership of the product to customers, and the right to receive payment from customers, the Group determines that control of the products is transferred to the customers and the performance obligation is satisfied primarily at the time of delivery or inspection of the products.

For construction and maintenance contracts in the Fluid Machinery & Systems Business, the Group satisfies a performance obligation over a certain period and, therefore, recognizes revenue over time because primarily one of the following criteria is met and control of a products or services is transferred over time.

i) the customer simultaneously receives and consumes the benefits provided by the Group's performance at the same time as the Group performs;

ii) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

iii) the Group's performance does not create an asset with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

If the result of the performance obligation can be reasonably measured, revenue is recognized over the construction or maintenance period based on the progress rate for the fulfillment of the performance obligation estimated as of the end of the reporting period. The progress rate is calculated based on the ratio of the actual cost to the estimated total cost (input method). If the outcome of the performance obligation cannot be reasonably measured, but the Group expects to recover the cost of satisfying the performance obligation, the Group faithfully depicts its performance by recognizing sales only to the extent of the cost incurred.

(ii) Environmental Plants Business

In the Environmental Plants Business, the Group primalily engages in manufacturing, sales, construction, and maintenance services related to waste treatment facilities.

For the manufacture and sale of products in the Environmental Plants Business, based on a comprehensive assessment of indicators of the transfer of control, such as the legal title of the product, physical possession of the product, transfer of significant risks and rewards of ownership of the product to a customer, and the right to receive payment from a customer, the Group determines that control of the products is transferred to the customer and the performance obligation is satisfied primarily at the time of delivery or inspection of the products.

For construction and maintenance contracts in the Environmental Plants Business, the Group satisfies a performance obligation over a certain period and, therefore, recognizes revenue over time because primarily one of the following criteria is met and control of products or services is transferred over time.

i) the customer simultaneously receives and consumes the benefits provided by the Group's performance at the same time as the Group performs;

ii) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

iii) the Group's performance does not create an asset with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

If the result of the performance obligation can be reasonably measured, revenue is recognized over the construction or maintenance period based on the progress rate for the fulfillment of the performance obligation estimated as of the end of the reporting period. The progress rate is calculated based on the ratio of the actual cost to the estimated total cost (input method). If the outcome of the performance obligation cannot be reasonably measured, but the Group expects to recover the cost of satisfying the performance obligation, the Group faithfully depicts its performance by recognizing sales only to the extent of the cost incurred.

(iii) Precision Machinery Business

In the Precision Machinery Business, the Group primarily engages in manufacturing, sales, and maintenance services related to dry vacuum pumps and CMP systems.

For the manufacture and sales of products in the Precision Machinery Business, based on a comprehensive assessment of indicators of the transfer of control, such as the legal title of the product, physical possession of the product, transfer of significant risks and rewards of ownership of the product to customers, and the right to receive payment from customers, the Group determines that control of the products is transferred to the customers and the performance obligation is satisfied primarily at the time of delivery or inspection of the products.

Revenue is measured as the amount of consideration promised in the contract with customers by deducting discounts, late fees, and other charges. For variable consideration, including variable discounts, the amount of consideration is estimated using all reasonably available information, and revenue is recognized only to the extent that it is highly probable that a significant reversal will not occur. Furthermore, the Group does not adjust the interest rate component of the consideration because it expects that, at the inception of the contract, the period between the time when the goods or services are transferred to the customers and the time when the customers pay the consideration is one year or less, applying practical expedients under IFRS 15 "Revenue from Contracts with Customers."

If multiple performance obligations are identified in the contract, the transaction amount is allocated to each performance obligation, mainly at a ratio of the observable standalone selling price.

(14) Income taxes

Income tax expense is shown as the aggregate amount of current tax and deferred tax.

Current tax is measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates enacted or substantively enacted by the end of the reporting period. These are recognized under the profit or loss of the fiscal year, excluding items associated with a business combination and those recognized directly under equity or other comprehensive income.

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the period in which the asset is realized or the liability is settled based on tax rates enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are measured based on a temporary difference which is the difference between the carrying amount of assets and liabilities, and the tax base of assets and liabilities and based on losses carried forward. Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which the deductible temporary differences, tax loss carried forward, and tax credit carried forward can be utilized.

Deferred tax assets and liabilities are not recognized for temporary differences arising from the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or taxable income. Further, deferred tax liabilities are not recognized for taxable temporary differences arising from the initial recognition of goodwill.

Taxable temporary differences related to investments in subsidiaries and associates are recognized as deferred tax liabilities. However, deferred tax liabilities are not recognized if the Group can control the timing of the reversal of temporary differences, and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets are also recognized for deductible temporary differences associated with investments in subsidiaries and associates, but only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

(15) Borrowing costs

For an asset that necessarily takes a substantial period to get ready for its intended use or sale, borrowing costs directly attributable to the acquisition, construction, or production of such asset are capitalized as part of the cost of that asset. All other borrowing costs are recognized as an expense in the period they are incurred.

(16) Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to common shareholders of the parent by the weighted average number of common shares outstanding during the period, adjusted for treasury shares. Diluted earnings per share are calculated after adjusting for the effect of dilutive potential shares.

(17) Hyperinflation adjustment

For hyperinflation adjustment, please refer to “41. Hyperinflation adjustment.”

4. Significant accounting estimates and related judgments

In preparing consolidated financial statements in accordance with IFRS, the management is required to make judgments, estimates, and assumptions that may affect the adoption of accounting policies and the reported amounts of assets, liabilities, income, and expenses.

However, the actual performance may differ from these estimates.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate is recognized in the period of the change and future periods if the change affects both.

The assumptions and sources of estimation uncertainty in the consolidated financial statements that have a risk of resulting in a significant adjustment to the carrying amounts of assets and liabilities within the next fiscal year are as outlined below:

・ Revenue recognition

Revenue is recognized over time mainly for construction and maintenance contracts of the Pumps, Compressors & Turbines, and Chillers businesses of the Fluid Machinery & Systems Business segment as well as the Environmental Plants Business segment, as control of goods or services is transferred over time and therefore performance obligation is satisfied over time. The input method is used to measure progress toward complete satisfaction of a performance obligation if the outcome of a performance obligation can be reliably determined and measured at the ratio of costs incurred relative to total estimated costs.

Preconditions in estimates and measurement are reviewed as necessary, and the initial estimate may be amended as a result of incurring additional costs, changes in contract amounts, or for other reasons that may significantly impact the amount recognized in the consolidated financial statements.

The carrying amount of contract assets as of December 31, 2022, is as stated in “28. Revenue.”

・ Recoverability of deferred tax assets

Recoverability of deferred tax assets is regularly examined, and deferred tax assets are recorded reflecting future estimated taxable income and feasible tax planning, to the extent that it is probable that taxable income will be available against which deductible temporary differences, tax losses carried forward and tax credit carried forward can be utilized. The timing of incurring future taxable income and its amount for assuming estimates are measured based on the business plan approved by the management, but such assumptions may fluctuate due to factors such as the business results at that time. Therefore, recoverability will be reviewed to adjust deferred tax assets in the event of any factors that affect these estimates and may significantly impact the amount of deferred tax assets recognized in the consolidated financial statements.

The carrying amount of deferred tax assets as of December 31, 2022, is stated in “17. Income taxes.”

・ Accounting and evaluation of provisions

The Group records provisions such as those for warranties on completed construction and for construction losses. These provisions are recognized if the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Assumptions used to measure such provisions may be affected by changes in uncertain economic conditions in the future and may significantly impact the amount of provisions recognized in the consolidated financial statements over the future.

The carrying amount of provisions as of December 31, 2022, is stated in “23. Provisions.”

・ Defined benefit obligations

The Group calculates defined benefit obligations by estimating the amount of future benefits employees earned as consideration for services provided in the prior and current fiscal years and then discounting the amount to the present value. The discount rate is a significant actuarial assumption determined by reference to market yields at the end of the fiscal year on high-quality corporate bonds with more or less the same maturity as the Group’s defined benefit liability.

Other actuarial assumptions include estimated rates of retirement, mortality, and salary increase. Such actuarial assumptions may be affected mainly by changes in the future economic environment or social trends, and any reviews of the assumptions may significantly impact the value of defined benefit liability recognized in the consolidated financial statements.

The carrying amounts of retirement benefit assets and liabilities as of December 31, 2022, are stated in “24. Employee benefits.”

・ Impairment of non-financial assets

The Group assesses indications of impairment in property, plant and equipment as well as goodwill and intangible assets. If there is an indication of impairment, the Group measures the recoverable amount of each individual asset or cash-generating unit. Further, goodwill or intangible assets with indefinite useful lives and those not yet available for use are tested for impairment at the same time every fiscal year and whenever there is an indication of impairment. The Group uses certain assumptions on factors such as future cash flows, discount rates, and growth rates for calculating recoverable amounts in impairment testing.

Although these assumptions are determined by the management’s best estimate and judgment, they may be affected by factors such as changes in uncertain economic conditions in the future and changes in the business plan. Any reviews of the plans may significantly impact the consolidated financial statements.

The carrying amount of property, plant and equipment as well as goodwill and intangible assets as of December 31, 2022, is stated in “11. Property, plant and equipment” and “12 Goodwill and intangible assets,” respectively.

The spread of COVID-19 continues worldwide. It is still a major threat, and the situation remains unpredictable. On the other hand, thanks to increasingly active efforts to balance infection prevention measures and economic activities envisaging life with COVID-19, demand for social and industrial infrastructure is recovering.

The Group made accounting estimates assuming that COVID-19 will have a limited impact on the Group’s business and that the business environment will remain steady in the fiscal year ending December 31, 2023.

However, if the impact of the spread of COVID-19 diverges from this assumption, the Group’s financial position and operating results may be affected.

5. Operating segments

(1) Overview of reportable segments

The reportable segments constitute units of the Group for which separate financial information is available and which the Board of Directors periodically examines for the purpose of deciding the allocation of management resources and evaluating operating performance. Operating segments are not aggregated.

The Group conducts its business operations through three in-house companies: the Fluid Machinery & Systems Company, the Environmental Plants Company, and the Precision Machinery Company. Therefore, the Group is composed of product and service segments based along the lines of the in-house companies, and its three reportable segments are Fluid Machinery & Systems Business, Environmental Plants Business, and Precision Machinery Business.

The principal products and services of each reportable segment are as follows:

Reportable segments	Principal products and services
Fluid Machinery & Systems Business	Pumps, compressors, turbines, freezer chillers, blowers, fans, and others
Environmental Plants Business	Municipal waste processing plants, industrial waste incineration plants, water treatments plants, and others
Precision Machinery Business	Dry vacuum pumps, CMP equipment, plating equipment, exhaust-gas treatment equipment, and others

(2) Information on reportable segments

The accounting policies for reportable segments are the same as those described in "3. Significant accounting policies." Profits from reportable segments are based on the same accounting policy of the Group, and profit figures are based on operating profit. Intersegment sales and transfers are recorded at the same prices used in transactions with customers.

Fiscal year ended December 31, 2021

(Millions of yen)

	Segment				Others (Note 1)	Total	Adjustment (Notes 2, 3)	Consolidated (Note 4)
	Fluid Machinery & Systems	Environmental Plants	Precision Machinery	Total				
Revenue								
External customers	336,980	71,824	192,791	601,596	1,617	603,213	-	603,213
Intersegment and transfers	739	55	3	798	2,355	3,154	(3,154)	-
Total	337,719	71,880	192,794	602,394	3,973	606,368	(3,154)	603,213
Segment profit (loss)	24,793	5,632	28,035	58,461	1,168	59,629	1,743	61,372
Finance income								416
Finance costs								2,687
Share of profit (loss) of investments accounted for using equity method								1,200
Profit before tax								60,302
Segment assets	360,986	55,062	181,140	597,189	34,733	631,923	87,813	719,736
Other items								
Depreciation and amortization	10,930	806	6,981	18,717	2,739	21,457	(21)	21,435
Impairment losses	72	0	70	143	54	198	-	198
Capital expenditures	9,949	762	5,608	16,321	6,481	22,803	(44)	22,758
Investment in entities applying equity method	-	7,153	-	7,153	-	7,153	-	7,153

Notes: 1. "Others" in the table above is the operating segment for operations that are not included among reportable segments. It contains business support services and other activities.

2. The adjustment of segment profit (loss) is the elimination of intersegment transactions.
The total value of the adjustment of segment assets for the Company was corporate assets of the Group amounting to ¥88,582 million, which was not allocated to reportable segments, and elimination of intersegment transactions amounting to ¥(769) million. The main corporate assets of the Group are cash and cash equivalents, a part of investment securities, deferred tax assets, and others.

3. The adjustments of the items under "Other items" are the elimination of intersegment transactions.

4. Segment profit has been reconciled with operating profit in the consolidated statement of profit or loss.

Fiscal year ended December 31, 2022

(Millions of yen)

	Segment				Others (Note 1)	Total	Adjustment (Notes 2, 3)	Consolidated (Note 4)
	Fluid Machinery & Systems	Environmental Plants	Precision Machinery	Total				
Revenue								
External customers	383,393	73,738	222,259	679,391	1,478	680,870	-	680,870
Intersegment and transfers	665	102	7	775	2,287	3,062	(3,062)	-
Total	384,058	73,841	222,267	680,167	3,765	683,933	(3,062)	680,870
Segment profit (loss)	32,038	3,669	36,183	71,890	(1,216)	70,674	(101)	70,572
Finance income								957
Finance costs								2,762
Share of profit (loss) of investments accounted for using equity method								714
Profit before tax								69,481
Segment assets	429,517	64,656	228,975	723,149	43,507	766,657	61,391	828,049
Other items								
Depreciation and amortization	11,942	843	7,385	20,170	3,920	24,091	(23)	24,067
Impairment losses	1,512	0	306	1,819	29	1,848	(0)	1,848
Capital expenditures	10,994	2,013	6,328	19,336	8,290	27,627	(30)	27,597
Investment in entities applying equity method	-	7,153	-	7,153	-	7,153	-	7,153

Notes: 1. "Others" in the table above is the operating segment for operations that are not included among reportable segments. It contains business support services and other activities.

2. The adjustment of segment profit (loss) is the elimination of intersegment transactions.
The total value of the adjustment of segment assets for the Company was corporate assets of the Group amounting to ¥62,271 million, which was not allocated to reportable segments, and elimination of intersegment transactions amounting to ¥(879) million. The main corporate assets of the Group are cash and cash equivalents, a part of investment securities, deferred tax assets, and others.

3. The adjustments of the items under "Other items" are the elimination of intersegment transactions.

4. Segment profit has been reconciled with operating profit in the consolidated statement of profit or loss.

(3) Information on products and services

As the product and service categories are the same as the reportable segments, their descriptions are omitted.

(4) Information by region

Revenue from external customers by region is as follows.

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Japan	247,447	253,821
China	111,395	110,301
Other Asia	121,723	137,170
North America	44,216	57,688
Others	78,428	121,888
Total	603,213	680,870

Notes: 1. Revenues are classified by country or region based on the location of the customers.
2. Major countries and regions included in each category:
(1) Other Asia: Taiwan and South Korea
(2) North America: United States and Canada
(3) Others: Saudi Arabia and Brazil

Non-current assets (excluding financial instruments, deferred tax assets, and defined benefit assets.) by region are as follows.

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Japan	124,006	125,127
China	10,567	11,505
Other Asia	6,358	8,435
United States	23,329	26,542
Others	20,335	37,438
Total	184,597	209,049

Notes: 1. Non-current assets are classified by country or region based on the location of the assets.
2. Major countries and regions included in each category:
(1) Other Asia: South Korea and Taiwan
(2) Others: Canada and Turkey

(5) Information on major customers

No single external customer accounted for 10% or more of revenue.

6. Business combinations

Fiscal year ended December 31, 2021

A significant business combination was conducted in the fiscal year ended December 31, 2021, as follows:

Based on a stock purchase agreement concluded on December 21, 2020, the Group has acquired all outstanding shares of Cigli Su Teknolojileri A.S. and its subsidiaries, Vansan Makina Sanayi ve Ticaret A.S. and Vansan Makina Montaj ve Pazarlama A.S., which are Turkish pump manufacturers.

(1) Overview of the business combination

(i) Name and business of acquired companies

Names of acquired companies:

Cigli Su Teknolojileri A.S.

Vansan Makina Sanayi ve Ticaret A.S.

Vansan Makina Montaj ve Pazarlama A.S.

Business description: Manufacture and sale of deep well motor pumps and vertical-type pumps

(ii) Date of acquisition: April 12, 2021

(iii) Percentage of voting rights acquired: 100.0%

(iv) Primary reason for the business combination:

To enhance the Company's global supply chain by strengthening access to markets in Europe, Central Asia, the Middle East, and Africa to expand its Standard Pumps Business further.

(v) Legal form of the business combination: Cash acquisition of shares

(2) Consideration paid, the fair value of assets acquired and liabilities assumed, and the amount of goodwill as of the date of the business combination

(Millions of yen)

	Amount
Fair value of acquisition costs	
Cash	10,768
Total	10,768
Fair value of acquired assets	
Cash and cash equivalents	392
Trade and other receivables	2,865
Inventories	2,232
Property, plant and equipment	1,108
Intangible assets	4,499
Other assets	757
Fair value of assumed liabilities	
Trade and other payables	2,683
Borrowings and lease liabilities	4,022
Other liabilities	1,688
Fair value of acquired assets and assumed liabilities (net)	3,460
Goodwill	7,307
Total	10,768

Notes: 1. For the fair value of trade and other receivables (mainly accounts receivable) worth ¥2,865 million, the total contract amount is ¥2,912 million, and estimated contractual cash flows not expected to be recovered as of the acquisition date is ¥47 million.

2. Goodwill generated by this business combination is recorded in the Fluid Machinery & Systems Business and mainly comprises impacts of synergies with existing businesses and excess earning power expected from the acquisition that does not meet the requirements for recognition individually. No amount of this goodwill is expected to be deductible for tax purposes.

3. The amounts of assets acquired and liabilities assumed and goodwill were tentatively measured in the third quarter ended September 30, 2021, based on information available since purchase price allocation was incomplete. However, they were finalized during the fourth quarter ended December 31, 2021, and the finalization of provisional accounting treatments is reflected in the results. Details of amendments and amounts recognized accordingly during the measurement period are as follows:

(Millions of yen)

Goodwill (before revision)	11,051
Changes in intangible assets	(4,466)
Deferred tax liabilities	936
Others	(214)
Goodwill (after revision)	7,307

(3) Acquisition-related costs

Acquisition-related costs related to this business combination amounted to ¥176 million, all of which were recorded as selling, general and administrative expenses.

(4) Effect on the financial results

(i) Revenue and profit included in the consolidated statement of profit or loss for the fiscal year

Revenue: ¥6,531 million

Profit: ¥(885) million

(ii) Effect on revenue and profit in the consolidated statement of profit or loss assuming that the business combination was implemented at the beginning of the period (unaudited)

Revenue: ¥8,202 million

Profit: ¥(1,392) million

Fiscal year ended December 31, 2022

A significant business combination was conducted in the fiscal year ended December 31, 2022, as follows:

Based on an equity interest purchase agreement concluded on September 28, 2022, the Group has acquired all equity interests of Hayward Gordon Holdings, L.P., a North American pump and mixer manufacturer, and its six subsidiaries.

(1) Overview of the business combination

(i) Name and business of acquired companies

Names of acquired companies: Hayward Gordon Holdings, L.P. and its six subsidiaries

Business description: Manufacture, sales, and after-sales services of industrial pumps, mixers, and monitoring systems.

(ii) Date of acquisition: September 30, 2022

(iii) Percentage of voting rights acquired: 100.0%

(iv) Primary reason for the business combination:

To broaden the product lineups and establish distribution channels mainly for public sewage, industrial equipment, and process industry to expand the Company’s standard pump business in the North American region.

(v) Legal form of the business combination: Cash acquisition of shares

(2) Consideration paid, the fair value of assets acquired and liabilities assumed, and the amount of goodwill as of the date of the business combination

(Millions of yen)

	Amount
Fair value of acquisition costs	
Cash	14,969
Total	14,969
Fair value of acquired assets	
Cash and cash equivalents	294
Trade and other receivables	1,783
Contract assets	1,302
Inventories	1,666
Property, plant and equipment	368
Intangible assets	4,848
Other assets	286
Fair value of assumed liabilities	
Trade and other payables	993
Contract liabilities	1,115
Borrowings and lease liabilities	313
Other liabilities	1,627
Fair value of acquired assets and assumed liabilities (net)	6,500
Goodwill	8,469
Total	14,969

Notes: 1. The post-acquisition price adjustment had not been completed during the third quarter ended September 30, 2022. However, the adjustment was completed during the fourth quarter ended December 31, 2022, and the consideration for the acquisition was finalized.

2. For the fair value of trade and other receivables (mainly accounts receivable) worth ¥1,783 million, the total contract amount is ¥1,804 million, and estimated contractual cash flows not expected to be recovered as of the acquisition date is ¥21 million.

3. Goodwill generated by this business combination is recorded in the Fluid Machinery & Systems Business and mainly comprises impacts of synergies with existing businesses and excess earning power expected from the acquisition that does not meet the requirements for recognition individually. No amount of this goodwill is expected to be deductible for tax purposes.

4. The amounts of acquired assets, assumed liabilities, and goodwill were tentatively measured in the third quarter ended September 30, 2022, based on information available since purchase price allocation was incomplete. However, they were finalized during the fourth quarter ended December 31, 2022, and the finalization of provisional accounting treatments is reflected in the results. Details of amendments and amounts recognized accordingly during the measurement period are as follows:

(Millions of yen)

Goodwill (before revision)	11,015
Changes in intangible assets	(3,896)
Deferred tax liabilities	1,201
Others	148
Goodwill (after revision)	8,469

(3) Acquisition-related costs

Acquisition-related costs related to this business combination amounted to ¥363 million, all of which were recorded as selling, general and administrative expenses.

(4) Effect on the financial results

(i) Revenue and profit included in the consolidated statement of profit or loss for the fiscal year

Revenue: ¥1,978 million

Profit: ¥218 million

(ii) Effect on revenue and profit in the consolidated statement of profit or loss assuming that the business combination was implemented at the beginning of the period (unaudited)

Revenue: ¥7,802 million

Profit: ¥(184) million

7. Cash and cash equivalents

Details of cash and cash equivalents are as follows:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Cash and deposits	139,490	116,398
Securities	-	2,665
Securities, etc. with maturities over three months	-	-
Time deposits with maturities over three months	(3,001)	(2,926)
Total	136,488	116,137

The balance of cash and cash equivalents on the consolidated statement of financial position matches the balance of cash and cash equivalents on the consolidated statement of cash flows as of December 31, 2021, and December 31, 2022.

8. Trade and other receivables

The components of trade and other receivables are as follows:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Accounts and notes receivable - trade and electronically recorded monetary claims	131,529	152,591
Other receivables	1,310	2,191
Allowance for doubtful accounts (Note)	(2,718)	(3,118)
Total	130,121	151,665

Note: Trade and other receivables are presented net of allowance for doubtful accounts in the consolidated statement of financial position.

9. Inventories

The components of inventories are as follows:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Merchandise and finished goods	21,676	30,199
Work in process	54,128	78,877
Raw materials and supplies	45,585	72,260
Total	121,389	181,337

Notes: 1. Inventories recognized as expenses and included in the cost of sales during the fiscal years ended December 31, 2021, and 2022 amounted to ¥398,450 million and ¥449,451 million, respectively.

2. The write-downs of inventories recognized as cost of sales during the fiscal years ended December 31, 2021, and 2022 amounted to ¥4,562 million and ¥4,750 million, respectively. The amounts of reversals of write-downs for the fiscal years ended December 31, 2021, and 2022 were not material.

3. There were no inventories pledged as collateral for liabilities.

10. Other financial assets

The components of other financial assets are as follows:

(1) Current assets

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Time deposits	3,001	2,926
Loans receivable	14	11
Others	251	603
Total	3,267	3,540

(2) Non-current assets

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Investment securities	2,146	2,210
Guarantee deposits	2,301	2,351
Long-term loans receivable	108	93
Others	1,685	2,128
Total	6,241	6,783

11. Property, plant, and equipment

Property, plant and equipment consist of Group-held assets that do not meet the definition of investment property and right-of-use assets.

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Group-held property, plant and equipment	140,074	144,960
Right-of-use assets	21,317	20,755
Total	161,392	165,715

Right-of-use assets are as stated in “14. Leases.”

The changes in the carrying amount of Group-held property, plant and equipment during the period were as follows:

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of January 1, 2021	57,044	28,464	19,594	25,204	5,044	135,351
Purchases	840	1,735	-	10,584	756	13,916
Acquisition through business combination	231	241	224	8	70	776
Transfer from construction in progress	2,746	18,908	-	(23,971)	2,315	-
Depreciation	(4,145)	(7,408)	-	-	(2,529)	(14,084)
Impairment losses	(28)	(118)	(36)	-	(3)	(185)
Sale or disposal	(111)	(152)	1,608	(67)	(22)	1,254
Exchange differences on translation	1,529	1,286	94	732	179	3,821
Other changes	(205)	(2)	269	(505)	(331)	(775)
As of December 31, 2021	57,901	42,955	21,754	11,985	5,477	140,074
Purchases	289	1,959	-	12,827	772	15,849
Acquisition through business combination	32	138	-	-	9	180
Transfer from construction in progress	9,243	6,632	424	(18,148)	1,848	-
Depreciation	(4,711)	(8,018)	-	-	(2,615)	(15,346)
Impairment losses	(31)	(154)	-	(167)	(4)	(358)
Sale or disposal	5	(307)	(190)	(352)	(37)	(882)
Exchange differences on translation	2,143	2,147	317	938	243	5,790
Other changes	1	(81)	0	(374)	107	(346)
As of December 31, 2022	64,873	45,271	22,305	6,709	5,801	144,960

Depreciation is included in “cost of sales” and “selling, general and administrative expenses.” Impairment losses are included in other expenses.

The costs of property, plant and equipment owned by the Group are as follows.

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of January 1, 2021	131,186	141,344	22,500	25,225	40,871	361,128
As of December 31, 2021	136,487	161,510	23,029	11,995	43,458	376,482
As of December 31, 2022	149,790	171,275	23,580	6,878	48,538	400,063

Accumulated depreciation and accumulated impairment losses on property, plant and equipment owned by the Group are as follows.

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of January 1, 2021	74,142	112,880	2,905	21	35,827	225,776
As of December 31, 2021	78,586	118,554	1,275	10	37,981	236,407
As of December 31, 2022	84,917	126,004	1,275	169	42,737	255,103

12. Goodwill and intangible assets

Goodwill and intangible assets consist of assets owned by the Group and right-of-use assets.

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Goodwill and intangible assets owned by the Group	23,186	43,315
Right-of-use assets	18	17
Total	23,204	43,333

Right-of-use assets are as stated in “14. Leases.”

The changes in the carrying amounts of goodwill and intangible assets owned by the Group during the period are as follows:

(Millions of yen)

	Goodwill	Software	Other intangible assets	Total
As of January 1, 2021	648	9,486	1,296	11,431
Purchases	-	6,491	224	6,716
Internal development	-	-	0	0
Acquisition through business combination	7,307	3	4,495	11,807
Amortization	-	(2,597)	(706)	(3,304)
Impairment losses	-	(12)	-	(12)
Sale or disposal	-	(44)	(9)	(53)
Exchange differences on translation	(2,410)	31	(1,317)	(3,696)
Other changes	-	274	23	298
As of December 31, 2021	5,545	13,633	4,008	23,186
Purchases	-	7,881	85	7,967
Internal development	-	140	-	140
Acquisition through business combination	8,469	38	4,810	13,318
Amortization	-	(3,392)	(575)	(3,967)
Impairment losses	(1,446)	(17)	-	(1,464)
Sale or disposal	-	(10)	0	(10)
Exchange differences on translation	2,727	43	1,330	4,101
Other changes	-	40	3	43
As of December 31, 2022	15,295	18,356	9,663	43,315

Amortization is included in “Cost of sales” and “Selling, general and administrative expenses.” Impairment losses are included in other expenses.

The costs of goodwill and intangible assets owned by the Group are as follows:

(Millions of yen)

	Goodwill	Software	Other intangible assets	Total
As of January 1, 2021	648	35,777	5,564	41,989
As of December 31, 2021	5,545	42,138	8,453	56,137
As of December 31, 2022	16,855	49,765	15,377	81,998

Accumulated amortization and impairment losses of goodwill and intangible assets owned by the Group are as follows:

(Millions of yen)

	Goodwill	Software	Other intangible assets	Total
As of January 1, 2021	-	26,290	4,267	30,558
As of December 31, 2021	-	28,505	4,444	32,950
As of December 31, 2022	1,559	31,409	5,713	38,682

13. Impairment of non-financial assets

(1) Cash-generating unit

The Group categorizes its assets according to its operating segments by the smallest cash-generating unit that generates independent cash inflows. The Group considers individual properties as grouping units for idle assets, assets held for sale, and assets to be disposed of.

(2) Impairment losses

The Group recognizes an impairment loss when the recoverable amount of an asset is less than its carrying amount. Impairment losses are included in "Other expenses" in the consolidated statement of profit or loss, and their breakdown by segment is provided in "5. Operating segments."

Impairment losses by asset class are as follows.

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Buildings and structures	28	31
Machinery, equipment and vehicles	118	154
Land	36	-
Goodwill	-	1,472
Others	15	190
Total	198	1,848

Fiscal year ended December 31, 2021

For assets and idle assets with no prospect for future use that are held for disposal or sale, their carrying amount is reduced to their recoverable amount. The recoverable amount of assets scheduled for disposal is based on their value in use, and their carrying amount is reduced to the memorandum value, assuming the value in use is zero. Assets held for sale and idle assets are principally measured at fair value, less costs of disposal. The fair value less costs of disposal is based on the estimated selling price and is classified as level 3 in the fair value hierarchy.

Fiscal year ended December 31, 2022

For assets and idle assets with no prospect for future use that are held for disposal or sale, their carrying amount is reduced to their recoverable amount. The recoverable amount of assets scheduled for disposal is based on their value in use, and their carrying amount is reduced to the memorandum value, assuming the value in use is zero. Assets held for sale and idle assets are principally measured at fair value, less costs of disposal. The fair value less costs of disposal is based on the estimated selling price and is classified as level 3 in the fair value hierarchy.

The discount rate used in the impairment test on the goodwill associated with Vansan Makina Sanayi ve Ticaret A.S. and its subsidiaries has risen, reflecting the rise in country risk as a result of the uncertainty over the outlook of the Turkish economy and a portion of the goodwill is currently expected to become unrecoverable. Accordingly, the carrying amount has been reduced to its recoverable amount. The recoverable amount is calculated on the basis of value in use, and the value in use is calculated by estimating the amount of future cash flows based primarily on the business plan and growth rate approved by management and discounting the estimated amount of cash flows to the present value using a discount rate based on the weighted average cost of capital before tax of 39.8%.

(3) Impairment test on goodwill

The Group tests goodwill for impairment at least once in a fiscal year or as needed if there is an indication of impairment. The recoverable amount in the impairment test is calculated based on the value in use.

The carrying amount of the Group's major goodwill is as follows:

(Millions of yen)

Reportable segments	Cash-generating units or groups of cash-generating units	As of December 31, 2021	As of December 31, 2022
Fluid Machinery & Systems	Vansan Makina Sanayi ve Ticaret A.S. and its subsidiaries	4,915	6,617
Fluid Machinery & Systems	Hayward Gordon Holdings, L.P. and its subsidiaries	-	7,877
Fluid Machinery & Systems	Others	629	801
	Total	5,545	15,295

Note: Cigli Su Teknolojileri A.S. was dissolved through an absorption-type merger with Vansan Makina Sanayi ve Ticaret A.S. as of December 30, 2022.

1. Vansan Makina Sanayi ve Ticaret A.S. and its subsidiaries

The value in use is calculated by estimating the amount of future cash flows based primarily on the business plan and growth rate approved by the management and then discounting the estimated amount of cash flows to the present value. The business plan basically spans a maximum period of five years and is prepared to reflect the management's evaluation of future industry trends and past data and is aligned with external and internal information. The growth rate is determined with reference to the long-term expected growth rates of the markets to which the cash-generating units belong and are 16.1% during the fiscal year ended December 31, 2022 (3.4% during the fiscal year ended December 31, 2021). The discount rate is calculated based on the weighted average cost of capital before tax for each cash-generating unit and was 39.8% during the fiscal year ended December 31, 2022 (14.4% during the fiscal year ended December 31, 2021).

In the fiscal year ended December 31, 2022, the discount rate used in the impairment test rose to 39.8%, reflecting the rise in country risk due to the uncertainty over the outlook of the Turkish economy, and a portion of the goodwill is currently expected to become unrecoverable. Accordingly, the carrying amount has been reduced to its recoverable amount, and impairment losses on the goodwill of ¥1,472 million have been reported under "Other expenses."

2. Hayward Gordon Holdings, L.P., and its subsidiaries

The value in use is calculated by estimating the amount of future cash flows based primarily on the business plan and growth rate approved by the management and then discounting the estimated amount of cash flows to the present value. The business plan basically spans a maximum period of five years and is prepared to reflect the management's evaluation of future industry trends and past data and is aligned with external and internal information. The growth rate is determined with reference to the estimated inflation rate of the country to which the cash-generating units belong and are 2.0% during the fiscal year ended December 31, 2022. The discount rate is calculated based on the weighted average cost of capital before tax for each cash-generating unit and was 12.8% during the fiscal year ended December 31, 2022. As a result, the recoverable amount exceeded the carrying amount by ¥2,701 million. This implies that a 1.9% rise in the discount rate could result in an impairment loss.

14. Leases

As lessee

(1) Components of right-of-use assets

The components of right-of-use assets are as follows.

The Group uses the underlying assets for leases primarily for business activities.

(Millions of yen)

	Type of underlying assets				Total
	Buildings and structures	Machinery, equipment and vehicles	Land	Others	
As of December 31, 2021	15,639	1,672	2,978	1,045	21,335
As of December 31, 2022	14,735	1,831	3,280	925	20,773

(2) Expenses and cash outflows relating to leases and additions to right-of-use assets

Expenses and cash outflows relating to leases and additions to right-of-use assets are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Depreciation charge for right-of-use assets		
Underlying assets of buildings and structures	2,622	3,061
Underlying assets of machinery, equipment and vehicles	687	788
Underlying assets of land	242	253
Underlying assets of other assets	543	552
Total depreciation charge for right-of-use assets	4,095	4,656
Expenses relating to leases		
Interest expense on lease liabilities	244	253
Expenses relating to short-term leases	428	444
Expenses relating to leases of low-value assets	687	707
Total expenses relating to leases	1,360	1,406
Cash outflow for leases	6,174	6,473
Additions to right-of-use assets	2,130	3,780

A maturity analysis of lease liabilities is as stated in “35. Financial instruments.”

(3) Extension options and termination options

In the Group, each company is responsible for managing its own lease contracts, and the terms and conditions of leases are individually negotiated and vary widely. Extension options and termination options are mainly included in real estate leases. Most of these leases contain extension options for one year or the same period as the original contract and early termination options exercisable upon prior written notice to the other party. These options are used as necessary to make effective use of lease contracts in business activities.

15. Subsidiaries and associates

The information is as stated in "I. Overview of Company, 4. Subsidiaries and Associates."

16. Investments accounted for using the equity method

The carrying amount of investments in an individually immaterial jointly controlled entity and financial information on such entity are as follows. These amounts take into account the Group's equity ratio.

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Total carrying amount	7,153	7,153

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Profit	1,200	714
Other comprehensive income	86	(9)
Comprehensive income	1,287	705

17. Income taxes

(1) Deferred tax assets and liabilities

Deferred tax assets and liabilities are primarily attributable to the following items:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Deferred tax assets		
Inventories	1,582	1,815
Provision for warranties for completed construction	1,768	1,744
Retirement benefit liability	1,647	1,678
Lease liabilities	75	171
Tax loss carry forward	739	710
Provision for bonuses	1,805	2,429
Others	11,183	12,589
Total deferred tax assets	18,802	21,139
Deferred tax liabilities		
Equity instruments	(56)	(66)
Retained earnings of subsidiaries	(3,811)	(4,491)
Others	(2,671)	(5,297)
Total deferred tax liabilities	(6,539)	(9,855)
Net deferred tax assets	12,263	11,284

The changes in net deferred tax assets or liabilities are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Balance at beginning of period	12,949	12,263
Recognized through profit or loss	302	753
Recognized through other comprehensive income (Note 1)	(463)	(15)
Increase (decrease) by business combination (Note 2)	(811)	(1,094)
Others	285	(622)
Balance at end of period	12,263	11,284

Notes: 1. Major changes in the fiscal year ended December 31, 2021, include a decrease of ¥179 million in deferred tax assets related to retirement benefit liability and a decrease of ¥263 million in deferred tax assets related to equity instruments included in others.

Major changes in the fiscal year ended December 31, 2022, include a decrease of ¥46 million in deferred tax assets related to retirement benefit liability.

2. Major changes in the fiscal year ended December 31, 2021, include an increase of ¥936 million in deferred tax liabilities related to fixed assets included in others that were recognized as a result of the acquisition of Cigli Su Teknolojileri A.S. and its subsidiaries, Vansan Makina Sanayi ve Ticaret A.S. and Vansan Makina Montaj ve Pazarlama A.S.

Major changes in the fiscal year ended December 31, 2022, include an increase of ¥1,201 million in deferred tax liabilities related to fixed assets included in others that were recognized as a result of the acquisition of Hayward Gordon Holdings, L.P. and its six subsidiaries.

The Group considers the probability that a portion of or all of the deductible temporary differences or tax loss carry-forward can be utilized against future taxable profits in recognition of deferred tax assets. In assessing the recoverability of deferred tax assets, the Group considers the scheduled reversal of deferred tax liabilities, projected future taxable profit, and tax planning strategies. For the recognized deferred tax assets, based on the level of historical taxable profit and projections for future taxable profit over the periods for which the deferred tax assets can be recognized, the Group determined that it is probable that the tax benefits can be utilized.

Deductible temporary differences and tax loss carry forward for which no deferred tax assets were recognized are as follows:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Deductible temporary differences	9,607	8,887
Tax loss carry forward	1,247	692

The tax loss carry-forward for which no deferred tax asset was recognized will expire as follows:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
1st year	174	127
2nd year	119	89
3rd year	106	107
4th year	118	50
5th year and thereafter	728	318
Total	1,247	692

The aggregate amount of taxable temporary differences associated with investments in subsidiaries and associates for which no deferred tax liabilities were recognized were ¥1,279 million and ¥5,607 million as of December 31, 2021, and 2022, respectively. The Group did not recognize deferred tax liabilities for these temporary differences since it could control the timing of the reversal of these temporary differences, and it was probable that the temporary differences would not reverse in the foreseeable future.

(2) Income tax expense

The components of income tax expense are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Current income tax expense	14,176	17,529
Deferred tax expense		
Origination and reversal of temporary differences	(1,916)	(1,025)
Assessment of recoverability of deferred tax assets	1,614	271
Total	13,873	16,775

The Company and its consolidated subsidiaries in Japan are mainly subject to corporate tax, inhabitant tax, and deductible enterprise tax. The effective statutory tax rate in Japan calculated based on these taxes was 30.6% for both fiscal years ended December 31, 2021, and 2022.

The difference between the effective statutory tax rate and the average effective tax rate shown in the consolidated statement of profit or loss is attributable to the following:

(%)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Effective statutory tax rate	30.6	30.6
Expenses not deductible for tax purposes	1.4	2.1
Income not taxable for tax purposes	(1.7)	(3.3)
Differences from applicable tax rates for overseas subsidiaries	(4.6)	(5.7)
Share of profit (loss) of investments accounted for using equity method	(0.1)	(0.0)
Unrecognized deferred tax assets	(2.3)	(0.7)
Others	(0.5)	1.2
Average effective tax rate	23.0	24.1

18. Other assets

The components of other assets are as follows:

(1) Current assets

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Consumption taxes receivable	7,932	13,263
Prepaid expenses	7,430	5,189
Advance payments	4,343	7,202
Others	1,467	801
Total	21,173	26,456

(2) Non-current assets

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Defined benefit asset	7,497	8,860
Long-term prepaid expenses	1,647	1,787
Total	9,144	10,648

19. Trade and other payables

The components of trade and other payables are as follows:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Accounts and notes payable - trade and electronically recorded obligations	148,799	174,675
Other payables	13,758	20,716
Others	-	-
Total	162,558	195,391

20. Bonds, borrowings, and lease obligations

The components of bonds, borrowings, and lease obligations are as follows:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022	Average interest rate (%) (Note 1)	Payment due
Short-term borrowings	35,847	27,480	4.13	-
Current portion of long-term borrowings	5,381	13,530	0.66	-
Current portion of bonds payable	10,000	-	-	-
Long-term borrowings	29,075	27,815	3.17	2027
Lease liabilities	21,741	20,506	-	2023–2032
Bonds payable	10,000	30,000	-	-
Total	112,046	119,333		
Current liabilities	56,578	46,772		
Non-current liabilities	55,467	72,560		
Total	112,046	119,333		

Notes: 1. “Average interest rate” represents the weighted-average rate applicable to the ending balances of borrowings. Borrowings hedged by derivative transactions, such as interest rate swaps, are calculated using the interest rates under such derivative transactions to avoid interest rate fluctuation risks.

2. The details of assets pledged as collateral are stated in “39. Collaterals.”

The issuance conditions for bonds are as follows:

(Millions of yen)

Company name	Name of bond	Date of issue	As of December 31, 2021	As of December 31, 2022	Interest rate (%)	Collaterals	Payment due
The Company	Unsecured straight bond (Series 9)	October 24, 2017	10,000	-	0.18	None	October 24, 2022
The Company	Unsecured straight bond (Series 10)	October 22, 2020	10,000	10,000	0.19	None	October 22, 2025
The Company	Unsecured straight bond (Series 11)	October 14, 2022	-	5,000	0.24	None	October 14, 2025
The Company	Unsecured straight bond (Series 12)	October 14, 2022	-	15,000	0.44	None	October 14, 2027
Total			20,000	30,000	-	-	-

21. Other financial liabilities

The components of other financial liabilities are as follows:

(1) Current liabilities

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Guarantee deposits received	46	45
Others	51	387
Total	98	432

(2) Non-current liabilities

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Long-term guarantee deposits received	91	93
Others	31	50
Total	123	144

22. Other liabilities

The components of other current liabilities and other non-current liabilities are as follows:

(1) Current liabilities

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Accrued expenses	7,596	8,817
Refund liabilities	1,884	2,024
Deposits received	4,937	5,799
Other short-term employee benefit liabilities	16,526	20,174
Others	6,297	7,596
Total	37,243	44,411

(2) Non-current liabilities

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Other long-term employee benefit liabilities	2,930	2,256
Others	899	819
Total	3,829	3,076

23. Provisions

The changes in provisions are as follows:

(Millions of yen)

	Provision for product warranties	Provision for construction losses	Asset retirement obligations	Provision for warranties for completed construction
As of January 1, 2021	4,089	6,605	2,319	3,793
Increase during the period	3,763	14,740	163	3,727
Decrease during the period (used for intended purpose)	(2,882)	(2,431)	(27)	(3,423)
Decrease during the period (reversal of provisions)	(219)	(12,497)	-	(548)
Exchange differences on translation	51	0	32	0
As of December 31, 2021	4,802	6,418	2,488	3,548
Increase during the period	3,393	15,219	109	2,695
Increase (decrease) by business combination	35	-	-	-
Decrease during the period (used for intended purpose)	(3,712)	(5,629)	-	(2,429)
Decrease during the period (reversal of provisions)	(188)	(10,767)	(7)	(1,020)
Exchange differences on translation	79	229	56	84
As of December 31, 2022	4,410	5,471	2,647	2,878

Provisions in the consolidated financial statements are as follows:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Current liabilities	14,769	12,760
Non-current liabilities	2,488	2,647
Total	17,257	15,408

1. Provision for product warranties

To cover liability for defect warranty on sales contracts, the Company provides for an estimated amount of guarantee expenses obtained by multiplying the amount of product sales by a rate of incidence computed based on past results. The expenditure is usually expected to incur after a period of one to three years after the end of the fiscal year.

2. Provision for construction losses

To cover possible losses on contracted construction projects, the Company provides an estimated amount of losses for uncompleted projects deemed to have a high possibility of incurring losses that can be reasonably estimated at the fiscal year-end.

The timing of expenditures is affected by the progress of the project and other factors.

3. Asset retirement obligations

The obligations mainly consist of asset removal costs associated with restoration obligations under lease contracts for the Company’s offices. These costs are usually expected to be incurred after one year or more from the end of the fiscal year but will be affected by future business plans.

4. Provision for warranties for completed construction

To cover liability for defect warranty on completed construction, the Company provides for an estimated amount of guarantee expenses obtained by multiplying the revenue of completed construction contracts by a rate of incidence based on past results. The expenditure is usually expected to incur after a period of one to three years after the end of the fiscal year.

24. Employee benefits

The Company and some domestic subsidiaries have a defined benefit corporate pension plan, a lump-sum payment plan, and a defined contribution pension plan to provide for the payment of retirement benefits to employees. Retirees of the Company and some domestic subsidiaries have the option to receive retirement benefits in the form of either a lump-sum payment or pension payments from a corporate pension fund. The amount of benefits is principally calculated based on the cumulative number of points awarded under the point-based benefits system. The points consist of "post qualification points," which are awarded based on the role and grade of each employee and "interest points," which are awarded based on market interest rate movements. In addition, the Company and some domestic subsidiaries have multi-employer plans. As the amount of pension assets for these plans can be reasonably calculated, they are included in the note regarding defined benefit plans.

The Company's pension plans are operated by a corporate pension fund legally separate from the Company in accordance with laws and regulations. The board of the corporate pension fund and pension management trustee are required by laws and regulations to act in the best interest of plan participants and are responsible for managing plan assets in accordance with prescribed policies.

Meanwhile, some foreign subsidiaries have defined benefits and defined contribution pension plans.

Plan assets are basically managed soundly but are exposed to investment risks related to financial instruments. In addition, since defined benefit obligations are measured based on various actuarial assumptions related to pension accounting, such as discount rates, they are exposed to risks of changes in these assumptions.

(1) Defined benefit plans

(i) Reconciliation of present value of defined benefit obligations and plan assets

The relationship between the present value of defined benefit obligations and plan assets, and retirement benefit liability and asset recognized in the consolidated statement of financial position is as follows:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Present value of funded defined benefit obligations	71,109	64,369
Plan assets	(78,239)	(72,381)
Subtotal	(7,130)	(8,011)
Present value of unfunded defined benefit obligations	8,045	7,531
Net defined benefit liability (asset) recognized in the consolidated statement of financial position	915	(480)
Retirement benefit liability	8,413	8,380
Defined benefit asset	7,497	8,860

Note: Defined benefit asset is included in "Other non-current assets" in the consolidated statement of financial position.

(ii) Reconciliation of present value of defined benefit obligations

The changes in the present value of defined benefit obligations are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Balance of present value of defined benefit obligations at beginning of period	76,776	79,154
Service cost	3,017	3,013
Interest cost	941	1,306
Remeasurements		
Actuarial gain or loss (demographic assumptions)	320	(1,461)
Actuarial gain or loss (financial assumptions)	(2,730)	(12,655)
Actuarial gain or loss (others)	(151)	(276)
Effect of transfer of pension plan	-	-
Benefits paid	(4,060)	(5,439)
Effects of business combinations and disposals	72	-
Others	4,968	8,260
Balance of present value of defined benefit obligations at end of period	79,154	71,901

The weighted average durations of defined benefit obligations of the Company and its consolidated subsidiaries as of December 31, 2021, and 2022 were 11.8 years and 9.8 years, respectively.

(iii) Reconciliation of plan assets

The changes in plan assets are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Balance of plan assets at beginning of period	72,381	78,239
Interest income	925	1,256
Remeasurements – return on plan assets		
(excluding amounts included in interest income)	1,150	(12,389)
Employers’ contributions	2,586	1,792
Benefits paid	(3,130)	(4,011)
Effects of business combinations and disposals	-	-
Others	4,326	7,494
Balance of fair value of plan assets at end of period	78,239	72,381

We periodically examine the pension financing and recalculate the amount of contributions in accordance with the rules of the corporate pension fund to keep the balance of pension finance in preparation for the appropriation for and shortage in future payments of benefits. The Group plans to pay contributions of ¥1,839 million to the defined benefit plans in the fiscal year ending December 31, 2023.

(iv) Major components of plan assets

The components of the fair value of plan assets are as follows:

(Millions of yen)

	As of December 31, 2021			As of December 31, 2022		
	Quoted prices in active markets		Total	Quoted prices in active markets		Total
	Quoted	None		Quoted	None	
Shares	8,249	39	8,289	462	1,264	1,727
Debt securities	55	33,971	34,027	-	34,319	34,319
Life insurance general account	-	12,069	12,069	-	12,432	12,432
Others	4,101	19,751	23,852	8,441	15,460	23,901
Total	12,406	65,832	78,239	8,903	63,477	72,381

Note: Others consist of cash equivalents and jointly operated trusts. Although there are no quoted market prices for the jointly operated trusts in active markets, investments held by the jointly operated trusts include listed shares and listed bonds that have quoted market prices in active markets.

The Group's plan assets are managed to optimize the investment returns at acceptable risks to ensure future payments of benefits to employees. Plan assets are mainly invested in a broadly diversified portfolio of Japanese and foreign stocks and debt securities. The Group has built an efficient basic portfolio (combination of asset allocation) by estimating the expected return and risk and correlation coefficient of stocks, debt securities, and other instruments. The Group also strives to maintain the asset allocation based on the basic portfolio over the medium to long term by rebalancing it as needed.

(v) Key actuarial assumptions

Key actuarial assumptions are as follows:

	As of December 31, 2021	As of December 31, 2022
Discount rate		
The Company and domestic subsidiaries	Mainly 0.4%	Mainly 1.1%
Overseas subsidiaries	Mainly 2.7%	Mainly 5.2%

The effect on defined benefit obligations of a 0.5% change in discount rates used for actuarial calculations is as follows:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
0.5% increase in discount rate	4,633	2,740
0.5% decrease in discount rate	(3,567)	(3,480)

Note: In calculating defined benefit obligations in the sensitivity analysis, the same method is applied to calculate defined benefit obligations recognized in the consolidated statement of financial position. The sensitivity analysis is conducted at the financial reporting date based on the movement of reasonably estimable assumptions. The sensitivity analysis assumes that all actuarial assumptions other than those subject to the analysis are constant, but in reality, changes in other actuarial assumptions may affect the analysis result.

(2) Defined contribution plan

The amounts of expenses recognized for the defined contribution plan for the fiscal years ended December 31, 2021, and 2022 were ¥7,396 million and ¥7,965 million, respectively.

Note: The amounts include employers' share of employee pension insurance premiums under the Japanese Employees' Pension Insurance Act.

(3) Employee benefit expenses

The total employee benefit expenses for the fiscal years ended December 31, 2021, and 2022 were ¥131,718 million and ¥150,727 million, respectively, and were recognized in "cost of sales" and "selling, general and administrative expenses" in the consolidated statement of profit or loss.

25. Equity and other equity items

(1) Share capital

(i) Number of shares authorized

The number of shares authorized in the fiscal years ended December 31, 2021, and 2022 was 200,000 thousand common shares, respectively.

(ii) Shares Issued

The changes in shares issued are as follows:

(Shares)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Number of shares issued		
Balance at beginning of period	95,391,453	95,513,633
Increase during the period	122,180	85,782
Decrease during the period	-	3,513,400
Balance at end of period	95,513,633	92,086,015

Notes: 1. All shares issued by the Company are common shares with no par value, and the shares issued are fully paid in.
2. The increase in shares issued during the fiscal year ended December 31, 2021, consisted of an increase of 81,500 shares due to the exercise of subscription rights to shares and an increase of 40,680 shares due to the issuance of new shares as restricted stock compensation.
3. The increase in shares issued during the fiscal year ended December 31, 2022, consisted of an increase of 53,200 shares due to the exercise of subscription rights to shares and an increase of 32,582 shares due to the issuance of new shares as restricted stock compensation.
4. The decrease in shares issued during the fiscal year ended December 31, 2022, was due to a decrease of 3,513,400 shares from the cancellation of treasury shares by a resolution of the Board of Directors.

(iii) Treasury shares

The changes in treasury shares are as follows:

(Shares)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Balance at beginning of period	20,422	3,536,073
Increase during the period	3,515,732	1,809
Decrease during the period	81	3,513,460
Balance at end of period	3,536,073	24,422

Notes: 1. The increase in treasury shares during the fiscal year ended December 31, 2021, was due to an increase of 203 shares from the acquisition without compensation under the restricted stock compensation scheme, an increase of 2,129 shares from the purchase of shares of less than one unit, and an increase of 3,513,400 shares from the repurchase of treasury shares following the resolution at the meeting of the Board of Directors.
2. The increase in treasury shares during the fiscal year ended December 31, 2022, was due to an increase of 149 shares from the acquisition without compensation under the restricted stock compensation scheme and an increase of 1,660 shares from the purchase of shares of less than one unit.
3. The decrease in treasury shares during the fiscal year ended December 31, 2021, was due to a decrease of 81 shares from the sale of shares of less than one unit.
4. The decrease in treasury shares during the fiscal year ended December 31, 2022, was due to a decrease of 60 shares from the sale of shares of less than one unit and a decrease of 3,513,400 shares from the cancellation of treasury shares by a resolution of the Board of Directors.

(2) Surplus

(i) Capital surplus

The Companies Act provides that at least half of the amount paid in or delivered upon the issuance of shares shall be included in share capital, with the remainder included in legal capital surplus, a component of capital surplus. Legal capital surplus may be included in share capital by resolution of a general meeting of shareholders.

(ii) Retained earnings

The Companies Act provides that an amount equal to 10% of a decrease in surplus due to the distribution of surplus shall be appropriated as a legal capital surplus or legally retained earnings until the total amount of legal capital surplus and legally retained earnings included in retained earnings equals 25% of share capital. The amount accumulated in legal retained earnings may be used to offset the deficit. Further, legally retained earnings may be reversed by a resolution of a general meeting of shareholders.

The amount available for distribution under the Companies Act is calculated based on the amount of retained earnings recorded in the Company's accounting records prepared in accordance with accounting principles generally accepted in Japan.

The Companies Act also sets certain limits on the calculation of amounts available for distribution, and therefore the Company distributes retained earnings within those limits.

(3) Details and purpose of other components of equity

(i) Exchange differences in the translation of foreign operations

These are exchange differences resulting from the translation of financial statements of foreign operations.

(ii) Cash flow hedges

This is the effective portion of gains or losses on hedging instruments in a cash flow hedge.

(iii) Net change in fair value of financial assets (equity financial assets) designated as measured at fair value through other comprehensive income

This is the cumulative amount of net change in the fair value of an equity financial asset measured at fair value through other comprehensive income that occurred before the asset was derecognized or its fair value decreased significantly.

(iv) Remeasurements of defined benefit plans

This is the variable portion arising from remeasurements of defined benefit plans.

26. Dividends

Dividends paid in each fiscal year are as follows:

Fiscal year ended December 31, 2021

Date of resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend paid per share (Yen)	Record date	Effective date
March 26, 2021 Ordinary General Meeting of Shareholders	Common shares	5,722	60.00	December 31, 2020	March 29, 2021
August 13, 2021 Board of Directors	Common shares	4,733	50.00	June 30, 2021	September 14, 2021

Fiscal year ended December 31, 2022

Date of resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend paid per share (Yen)	Record date	Effective date
March 29, 2022 Ordinary General Meeting of Shareholders	Common shares	10,393	113.00	December 31, 2021	March 30, 2022
August 12, 2022 Board of Directors	Common shares	7,823	85.00	June 30, 2022	September 13, 2022

Dividends with record dates falling in the fiscal year but whose effective dates fall in the following fiscal year are as follows:

Fiscal year ended December 31, 2021

Date of resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend paid per share (Yen)	Record date	Effective date
March 29, 2022 Ordinary General Meeting of Shareholders	Common shares	10,393	113.00	December 31, 2021	March 30, 2022

Fiscal year ended December 31, 2022

Date of resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend paid per share (Yen)	Record date	Effective date
March 29, 2023 Ordinary General Meeting of Shareholders	Common shares	9,942	108.00	December 31, 2022	March 30, 2023

27. Share-based payment

The Group has adopted a share-based compensation scheme for its Directors, Executive Officers, and employees intending to incentivize them to contribute to sustainable improvements of its corporate value and to share value with its shareholders.

(1) Stock options

(i) Overview of the stock option plan

The Group has adopted a stock option plan. The Group grants stock options to its Directors, Executive Officers, and employees by resolution of the Board of Directors based on the details approved at a general meeting of shareholders. The exercise period of stock options is set forth in the allotment agreements. The options shall expire if they are not exercised within the set exercise period.

The Company's stock options are accounted for as equity-settled share-based payments.

(ii) Details of stock options

	Grant date	Number granted (Shares)	Exercise price (Yen)	Vesting conditions	Exercise period
1st subscription rights to shares	November 5, 2009	244,600	1	(Note)	From July 1, 2011 to November 5, 2024
2nd subscription rights to shares	September 28, 2010	7,200	1	(Note)	From July 1, 2011 to November 5, 2024
3rd subscription rights to shares	September 27, 2011	323,000	1	(Note)	From July 1, 2014 to June 30, 2026
4th subscription rights to shares	October 1, 2012	106,800	1	(Note)	From July 1, 2014 to June 30, 2026
5th subscription rights to shares	October 1, 2013	42,400	1	(Note)	From July 1, 2014 to June 30, 2026
6th subscription rights to shares	October 1, 2014	261,800	1	(Note)	From July 1, 2017 to June 30, 2029
7th subscription rights to shares	October 1, 2015	89,400	1	(Note)	From July 1, 2017 to June 30, 2029
8th subscription rights to shares	October 1, 2016	38,000	1	(Note)	From July 1, 2017 to June 30, 2029
9th subscription rights to shares	October 1, 2017	73,700	1	(Note)	From April 1, 2020 to March 31, 2032

Note: As stated in "IV. Information About Reporting Company, 1 Company's Shares, etc. (2) Subscription rights to shares."

(iii) Changes in the number of stock options and weighted average exercise price

(Shares)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Outstanding at beginning of period	324,000	242,500
Expired	-	-
Exercised	81,500	53,200
Forfeited due to expiration	-	-
Outstanding at end of period	242,500	189,300
Exercisable at end of period	242,500	189,300

Notes: 1. The number of stock options is presented by converting them into the number of equivalent shares.

2. The weighted average exercise price is 1 yen for all stock options.

3. The weighted average share prices on the exercise dates in the fiscal years ended December 31, 2021, and 2022 were ¥4,302 and ¥5,863, respectively.

4. The weighted average remaining contractual life of the share options unexercised as of the year-end in the fiscal years ended December 31, 2021, and 2022 was 6.7 years and 5.8 years, respectively.

(2) Restricted stock compensation scheme

(i) Overview of the restricted stock compensation scheme

Under this scheme, which requires continuous service as Directors of the Company for a certain period, the eligible person shall pay all of the monetary remuneration claims paid by the Company in the form of property contributed in kind and, in exchange, receive common shares issued by the Company. The issuance of the Company's common shares under the scheme is subject to the execution of an agreement between the Company and the eligible Directors. The agreement specifies that (i) the eligible Directors shall not transfer the shares to a third party, create security interest on, or dispose of the shares in any other way for a certain period; and that (ii) the Company shall acquire such shares without consideration upon the occurrence of certain events. For non-resident eligible Directors, in lieu of the restricted stock compensation scheme, the Company will pay monetary compensation with the same economic value as such compensation.

The transactions under the restricted stock compensation scheme are equity-settled involving the distribution of the Company's common shares or cash-settled in the form of cash distribution. The former is accounted for as equity-settled share-based payments, and the latter as cash-settled share-based payments.

(ii) Number and fair value of shares granted during the period

	Grant date	Number granted (Shares)	Fair value at grant date (Yen)
Restricted stock compensation	May 12, 2022	32,582	6,010

Notes: 1. Fair values of shares granted are measured based on observable market prices.
2. The expected dividends are not incorporated into the measurement of fair values.

(3) Performance-linked stock compensation scheme

(i) Overview of the performance-linked stock compensation scheme

Under this scheme, which requires continuous service as Directors of the Company for a certain period, as well as the attainment of the Company's business performance targets prescribed by the Company's Board of Directors, the eligible person shall pay all of the monetary remuneration claims paid by the Company in the form of property contributed in kind, and in exchange, receive common shares issued by the Company.

With respect to the performance-linked stock compensation, the degree of achievement of performance targets is reviewed at a meeting of officers after the end of the performance evaluation period, and a resolution is made on the actual amount to be paid. The amount equivalent to 40% of the compensation shall be paid in cash in consideration of income taxes borne by officers and employees. For non-resident eligible Directors, in lieu of the performance-linked stock compensation, the Company will pay monetary compensation with the same economic value as the relevant stock compensation.

The transactions under the performance-linked stock compensation scheme are equity-settled involving the distribution of the Company's common shares or cash-settled in the form of cash distribution. The former is accounted for as equity-settled share-based payments, and the latter as cash-settled share-based payments.

(ii) Number and fair value of shares granted during the period

Not applicable.

(4) Impact of share-based payment transactions on the Group's profit or loss and financial position

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
(i) Cash-settled share-based payments		
Cost of sales	1	1
Selling, general and administrative expenses	396	150
Other non-current liabilities	492	623
(ii) Equity-settled share-based payments		
Cost of sales	4	3
Selling, general and administrative expenses	729	415
Other expenses	1	1

The intrinsic value associated with (1) cash-settled share-based payments vested at the end of the period during the fiscal years ended December 31, 2021, and 2022 was ¥41 million and ¥30 million, respectively.

28. Revenue

(1) Disaggregation of revenue

The Group has the following three reportable segments as stated in "5. Operating segments": Fluid Machinery & Systems Business, Environmental Plants Business, and Precision Machinery Business. The Company has disaggregated its revenue by the business. The relation between the revenue disaggregated by business and revenue from each reportable segment is as follows.

The amount of revenue recognized from other sources was not material.

(Millions of yen)

Reportable segments	Business	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Fluid Machinery & Systems	Pumps Business	191,502	209,000
	Compressors and Turbines Business	91,217	111,754
	Chillers Business	40,737	48,676
	Others	13,522	13,962
Environmental Plants		71,824	73,738
Precision Machinery		192,791	222,259
Others		1,617	1,478
Total		603,213	680,870

Note: Above amounts are exclusive of intra-group transactions.

(2) Contract balance

The balance of receivables from contracts with customers, contract assets, contract liabilities, and refund liabilities is as follows:

(Millions of yen)

	As of January 1, 2021	As of December 31, 2021	As of December 31, 2022
Receivables from contracts with customers	123,536	131,529	152,591
Contract assets	76,533	86,887	100,420
Contract liabilities	40,056	49,771	63,168
Refund liabilities	3,235	1,884	2,024

Consideration for receivables from contracts with customers is mostly received within one year after fulfilling obligations in accordance with payment conditions set forth separately. Receivables from contracts with customers are recognized in "Trade and other receivables" on the consolidated statement of financial position.

Contract assets consist primarily of the rights to receive consideration in exchange for the fulfilled portion of contractual obligations, which is measured based on the progress of such obligations at the end of the reporting period for construction contracts, excluding receivables. The Group's rights to the consideration are transferred to receivables when they become unconditional, requiring only the passage of time before the consideration is due and payable.

Impairment losses recognized on receivables from contracts with customers and contract assets during the fiscal years ended December 31, 2021, and 2022 were ¥232 million and ¥287 million, respectively.

Contract liabilities are recognized primarily for the portion for which consideration has been received from the customer, but the performance obligation has not been satisfied. Contract liabilities increase when the Company receives consideration from customers before the transfer of goods or services and decrease when performance obligations have been fulfilled.

Of the revenue recognized during the fiscal years ended December 31, 2021, and 2022, the amounts included in the beginning balances of contract liabilities were ¥32,723 million and ¥43,155 million, respectively.

Refund liabilities are measured against discounts, late charges to the extent that it is highly probable that no significant reversals will occur, using all reasonably available information to estimate the amount of consideration.

The amount of revenue recognized from performance obligations satisfied in prior periods was not material.

(3) Transaction prices allocated to remaining performance obligations

Transaction prices allocated to unsatisfied performance obligations are as follows. There are no material amounts of consideration arising from contracts with customers that are not included in the transaction price.

(Millions of yen)

Reportable segments	As of December 31, 2021	As of December 31, 2022
Fluid Machinery & Systems	224,365	269,788
Environmental Plants	285,242	317,491
Precision Machinery	141,756	230,811
Others	176	67
Total	651,541	818,158

These transactions mainly fall under long-term comprehensive contracts in the Custom Pumps and Compressors & Turbines businesses in Fluid Machinery & Systems Business, and Environmental Plants Business. Most of them are related to construction contracts that satisfy performance obligations over a long period exceeding one year. Unsatisfied performance obligations in each reportable segment are largely expected to be completed and recognized as revenue within the following periods from the end of each fiscal year.

Fluid Machinery & Systems Business: within 3 years

Environmental Plants Business: within 20 years

Precision Machinery Business: within 1 year

(4) Assets recognized from costs incurred to obtain or fulfill a contract

Of the incremental costs incurred to obtain contracts with customers and the costs to fulfill contracts related directly to the contracts, the Group recognizes the portion that it believes is collectible as assets and records such portion as other assets in the consolidated statement of financial position. The incremental costs incurred to obtain contracts refer to the costs that the Group has incurred to obtain contracts with customers but would not have incurred if the contract had not been obtained.

The incremental costs incurred to obtain contracts capitalized at the Group are primarily sales commissions paid to distributors to acquire sales contracts. The costs incurred to fulfill contracts are primarily bid preparation expenses and expenses required for development and research activities prior to a public announcement. If the amortization period of the asset to be recognized is one year or less, the incremental cost of obtaining contracts is expensed as incurred, using the practical expedient.

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Assets recognized from costs incurred to obtain contracts	130	205
Assets recognized from costs incurred to fulfill contracts	-	-
Total	130	205

These assets are amortized based on the pattern of transfer to customers of goods and services related to applicable construction contracts. The amounts of amortization attributable to assets recognized from the contract costs during the fiscal years ended December 31, 2021, and 2022 were ¥177 million and ¥148 million, respectively.

29. Selling, general, and administrative expenses

The components of selling, general, and administrative expenses are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Personnel expenses	51,519	56,798
R&D expenses	13,575	15,264
Packing and transportation costs	7,724	7,570
Depreciation and amortization	7,800	8,502
Other expenses	39,932	49,648
Total	120,553	137,784

30. Other income and expenses

The components of other income and expenses are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Other income		
Gain on disposal of non-current assets	3,100	131
Others	1,031	976
Total	4,131	1,107
Other expenses		
Loss on disposal of non-current assets	264	207
Impairment losses	198	1,848
Extra retirement payments	-	871
Others	384	997
Total	847	3,925

31. R&D expenses

The R&D expenses recognized during the fiscal years ended December 31, 2021, and 2022 were ¥13,575 million and ¥15,264 million, respectively.

32. Finance income and finance costs

The components of finance income are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Interest income		
Financial assets measured at amortized cost	365	607
Dividend income		
Financial assets measured at fair value through other comprehensive income	22	5
Foreign exchange gain or loss	-	-
Gain on net monetary position	-	292
Others		
Financial assets measured at fair value through profit or loss	28	50
Others	-	0
Total	416	957

The components of finance costs are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Interest expenses		
Financial liabilities measured at amortized cost	1,053	2,072
Lease liabilities	244	253
Foreign exchange gain or loss	1,206	215
Others		
Financial assets measured at fair value through profit or loss	16	-
Others	166	221
Total	2,687	2,762

33. Earnings per share

(1) Basic earnings per share are calculated as follows:

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Profit attributable to owners of parent (Millions of yen)	43,616	50,488
Weighted average number of common shares outstanding during the period (Thousands of shares)	94,114	92,029
Basic earnings per share (Yen)	463.44	548.61

(2) Diluted earnings per share are calculated as follows:

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Profit attributable to owners of parent (Millions of yen)	43,616	50,488
Adjustment to profit (Millions of yen)	-	-
Profit used to calculate diluted earnings per share (Millions of yen)	43,616	50,488
Weighted average number of common shares outstanding during the period (Thousands of shares)	94,114	92,029
Number of shares adjusted for stock options (Thousands of shares)	275	213
Average number of diluted common shares during the period (Thousands of shares)	94,390	92,243
Diluted earnings per share (Yen)	462.09	547.34

Note: No shares were excluded from the calculation of average number of diluted common shares during the period for their anti-dilutive effect.

34. Other comprehensive income

The amounts of reclassification adjustments and tax effects relating to other comprehensive income are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans		
Amount arising during the period	3,753	2,004
Before tax effect adjustment	3,753	2,004
Tax effect	(994)	(492)
After tax effect adjustment	2,758	1,512
Net change in financial assets measured at fair value through other comprehensive income		
Amount arising during the period	69	(63)
Before tax effect adjustment	69	(63)
Tax effect	(21)	19
After tax effect adjustment	47	(44)
Share of other comprehensive income of investments accounted for using equity method		
Amount arising during the period	86	(9)
Items that may be reclassified to profit or loss		
Cash flow hedges		
Amount arising during the period	(21)	(21)
Reclassification adjustments	99	(40)
Before tax effect adjustment	77	(62)
Tax effect	17	2
After tax effect adjustment	94	(59)
Exchange differences on translation of foreign operations		
Amount arising during the period	6,602	14,497
Total other comprehensive income	9,591	15,896

35. Financial instruments

(1) Capital management

The Group manages its capital to maximize its corporate value through sustainable growth. The key indicators used by the Group in capital management are Return on Invested Capital (ROIC), Return on Equity (ROE), and Debt-to-Equity ratio. In addition to these indicators, the Group also uses equity attributable to owners of the parent and its level as management indicators.

	As of December 31, 2021	As of December 31, 2022
ROIC (Note 1)	10.7%	11.2%
ROE (Note 2)	14.5%	15.0%
Debt-to-equity ratio	0.36x	0.33x

Notes: 1. ROIC = (Profit attributable to owners of parent) / (Invested capital)
Invested capital = Interest-bearing debt (the average of beginning and ending balances) + Equity attributable to owners of the parent (the average of beginning and ending balances)
2. ROE = Profit attributable to owners of parent ÷ Equity attributable to owners of the parent (the average of beginning and ending balances)

(2) Management of financial risks

The Group is exposed to financial risks (credit risk, liquidity risk, and market risk) that may arise in the course of its business activities. In order to avoid or mitigate such financial risks, we manage risks in accordance with certain policies. In addition, the Group's policy is to use derivatives to avoid risk and not for speculative purposes.

(i) Management of credit risk

The Group's trade receivables are exposed to customer credit risk. In order to mitigate such risk, the Company and its consolidated subsidiaries follow their internal regulations, regularly monitor the conditions of principal counterparties, and manage the collection status and balances by counterparty to early identify and mitigate collectability concerns due to a decline in their financial condition. The Group secures collateral for transactions with some of the counterparties.

The Group manages credit risk so that it is not excessively concentrated on a specific counterparty.

The maximum exposure to credit risks on the balance sheet date is the carrying amount of each financial asset after impairment. The respective amount on each reporting date is as follows.

(Exposure to credit risk)

(Millions of yen)

	Financial assets measured at 12-month expected credit losses	Financial assets measured at an amount equal to lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly	Credit impaired financial assets	Financial assets always measured at an amount equal to lifetime expected credit losses	
As of December 31, 2021	5,065	-	4,927	218,668	228,661
As of December 31, 2022	6,137	-	3,802	253,278	263,218

The outstanding guarantee obligation is as stated in "40. Contingency" is the Group's maximum exposure to credit risks.

The changes in the Group's allowance for doubtful accounts are as follows. In the event of impairment of trade and other receivables, the Group records allowance for doubtful accounts without directly reducing the carrying amount.

(Millions of yen)

Allowance for doubtful accounts	Financial assets measured at 12-month expected credit losses	Financial assets measured at an amount equal to lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly	Credit impaired financial assets	Financial assets always measured at an amount equal to lifetime expected credit losses	
As of January 1, 2021	231	-	5,027	2,400	7,658
Increase during the period	9	-	280	404	695
Decrease during the period (used for intended purpose)	-	-	(24)	(197)	(222)
Decrease during the period (reversal of provisions)	(2)	-	(389)	(203)	(594)
Others	1	-	32	208	243
As of December 31, 2021	240	-	4,927	2,613	7,780
Increase during the period	60	-	889	694	1,643
Decrease during the period (used for intended purpose)	(9)	-	(1,478)	(275)	(1,763)
Decrease during the period (reversal of provisions)	(2)	-	(585)	(139)	(727)
Others	(0)	-	(288)	458	170
As of December 31, 2022	288	-	3,464	3,351	7,103

During the fiscal years ended December 31, 2021, and 2022, no significant changes in the total carrying amount of financial assets could affect the change in allowance for doubtful accounts.

(ii) Management of liquidity risk

The Group manages liquidity risk, which is the risk of default in fulfilling obligations under financial liabilities by cash or other financial assets, by having the Company's finance division prepare and update cash flow plans based on reports from each department as well as maintaining an adequate scale of liquidity on hand in accordance with the status of its business. In addition, to cover financial risk, we secure alternative liquidity mainly by executing commitment line contracts. To improve the efficiency of funds in the Group, the Group operates a cash management system (CMS) to concentrate funds to the Company.

The balances of major financial liabilities as of December 31, 2021, and 2022 by the due date are as shown below. Contractual cash flows are undiscounted cash flows, including interest expenses.

(Millions of yen)

Fiscal year ended December 31, 2021	Carrying amount	Total contractual cash flows	Due within one year	Due after one year through five years	Due after five years
Non-derivative financial liabilities					
Trade and other payables	162,558	162,558	162,558	-	-
Bonds and borrowings	90,304	90,607	63,579	27,027	-
Lease liabilities	21,741	23,195	6,416	12,280	4,498
Others	221	221	98	123	-
Total	274,826	276,582	232,653	39,431	4,498
Derivative financial liabilities					
Derivatives	0	0	0	-	-
Total	0	0	0	-	-

(Millions of yen)

Fiscal year ended December 31, 2022	Carrying amount	Total contractual cash flows	Due within one year	Due after one year through five years	Due after five years
Non-derivative financial liabilities					
Trade and other payables	195,391	195,391	195,391	-	-
Bonds and borrowings	98,826	101,907	56,245	45,662	-
Lease liabilities	20,506	22,019	7,033	12,065	2,920
Others	486	486	359	127	-
Total	315,212	319,805	259,029	57,855	2,920
Derivative financial liabilities					
Derivatives	90	90	90	-	-
Total	90	90	90	-	-

The line of credit held by the Group is as follows:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Lines of credit	85,000	85,000
Used	-	-
Unused balance	85,000	85,000

(iii) Management of credit risk

i) Foreign exchange risk

The Group operates business globally, and the resulting trade receivables and payables denominated in foreign currencies are exposed to foreign exchange risk. The Group principally enters into derivative transactions, such as forward exchange contracts, to hedge the net position of trade receivables and payables denominated in foreign currencies.

The Group, including its consolidated subsidiaries, engages in and manages derivative transactions in accordance with its internal rules on the management of financial instruments.

(Exposure to foreign exchange risk)

The Group’s exposure to foreign exchange risks (net amount) is as follows: The amounts for which foreign exchange risks are hedged using derivatives are excluded.

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
USD	1,398	4,468
EUR	2,816	3,003
CNY	3,974	3,830

(Sensitivity analysis of foreign exchange risk)

Regarding foreign-currency-denominated financial instruments held by the Group as of December 31, 2021, and 2022, the impact of a 10% appreciation in the Japanese yen on profit in the consolidated statement of profit or loss is as follows.

These amounts do not reflect the impact of the translation into Japanese yen of functional currency-denominated financial instruments, or assets and liabilities and revenue and expenses of foreign operations. This analysis assumes that all the other variables are constant.

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
USD	(107)	(350)
EUR	(213)	(219)
CNY	(281)	(283)

ii) Interest-rate risk

The Group’s interest-bearing debts that have floating interest rates are exposed to interest-rate risk. To mitigate the interest-rate risk, the Group balances the fixed and floating interest rates of borrowings appropriately and uses derivatives such as interest-rate swaps as necessary.

(Exposure to interest-rate risk)

The Group’s exposure to interest-rate risk is as shown below. The amounts for which interest-rate risks are hedged using derivatives are excluded.

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Borrowings with variable interest rates	45,664	36,801

(Sensitivity analysis of interest-rate fluctuation risk)

Regarding financial instruments held by the Group as of December 31, 2021, and 2022, the impact of a 1% increase in the interest rate on profit in the consolidated statement of profit or loss is as shown below.

In the sensitivity analysis, the net year-end balance of financial instruments exposed to interest-rate fluctuations is multiplied by 1% to calculate the impact. Financial instruments whose interest rates are virtually fixed through interest swap contracts are excluded. This analysis assumes that all the other variables are constant.

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Profit after tax	(334)	(277)

iii) Stock price fluctuation risk

Equity instruments held by the Group are principally shares in business partners and are exposed to market price fluctuation risk. For equity instruments, the Group regularly confirms the market prices and the financial condition of the issuers (counterparties). In addition, for securities other than those held to maturity, the Group constantly reviews the rationale of holding them based on the relationship with the counterparty.

There was no applicable matter for the fiscal years ended December 31, 2021, and 2022.

(3) Fair value of financial instruments

(i) Carrying amount and fair value of financial instruments

(Millions of yen)

	As of December 31, 2021		As of December 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost				
Cash and cash equivalents	136,488	136,488	116,137	116,137
Trade and other receivables	130,121	130,092	151,665	151,557
Other financial assets	6,873	6,632	6,955	6,608
Financial assets measured at fair value through other comprehensive income				
Other financial assets	2,161	2,161	2,225	2,225
Financial assets measured at fair value through profit or loss				
Other financial assets (membership rights)	246	246	268	268
Other financial assets (investment in investment limited partnerships)	227	227	509	509
Other financial assets (derivatives)	41	41	364	364
Total	276,160	275,890	278,126	277,671
Financial liabilities measured at amortized cost				
Trade and other payables	162,558	162,558	195,391	195,391
Bonds and borrowings	90,304	89,934	98,826	97,632
Other financial liabilities	221	219	486	484
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities (derivatives)	0	0	90	90
Total	253,084	252,713	294,795	293,599

Lease liabilities are not included in the table above as the disclosure of their fair values is not required under IFRS 7 “Financial Instruments: Disclosures.”

(ii) Classification of financial instruments according to fair value hierarchy

Financial instruments measured at fair value are classified into one of the following three levels based on the observability of inputs used in the valuation.

Level 1: Fair values measured at quoted prices in active markets for identical assets and liabilities

Level 2: Fair values measured using inputs other than those included within Level 1 that are observable for the assets or liabilities, either directly or indirectly

Level 3: Fair values measured using inputs not based on observable market data for the assets or liabilities

Reclassifications among the levels of the fair value hierarchy are recognized at the end of each fiscal year. There were no reclassifications among Levels 1, 2, and 3 during the fiscal years ended December 31, 2021, and 2022.

(iii) Financial instruments measured at amortized cost

Methods of measuring major financial instruments at amortized cost are as follows:

i) Cash and cash equivalents

Because these items are settled within short periods, their carrying amounts approximate their fair values.

ii) Trade receivables

Trade receivables are categorized into certain periods and discounted per item, taking into account the period to maturity and credit risk.

iii) Other receivables, and trade and other payables

Because these items are settled within short periods, their carrying amounts approximate their fair values.

iv) Other financial assets and other financial liabilities

The fair values of non-current items are calculated by estimating their future cash flows and discounting them to their present value using a discount rate that takes into account credit risk. Because current items are settled within short periods, their carrying amounts approximate their fair values.

v) Bonds and borrowings

The fair values of bonds and long-term borrowings with a contract term of over one year are calculated based on the present value, which is the total amount of principal and interest discounted at an assumed interest rate for a similar new borrowing.

For the fair value hierarchy of financial instruments measured at amortized cost, bonds and borrowings are classified as Level 2, and other financial assets and liabilities are classified primarily as Level 3. The fair values relating to the financial instruments classified as Level 3 are measured in accordance with relevant internal rules. In measuring fair values, valuation techniques and inputs that most appropriately reflect the nature, characteristics, and risks of the financial instruments to be measured are adopted.

(iv) Financial instruments measured at fair value

The methods for measuring major financial instruments at fair value are as follows:

i) Shares

Shares are included in other financial assets and are classified as equity instruments measured at fair value through other comprehensive income. As for shares, those classified as Level 1 are listed shares traded in active markets and are valued at the quoted prices on the securities exchange. Shares classified as Level 2 are unlisted shares and are valued using observable market data. Those classified as Level 3 are unlisted shares measured mainly using the valuation model based on net assets (a method to measure corporate value based on the net assets of the issuer adjusted as necessary arising from market value evaluation) or using fair values based on recently obtained appraisal reports by external appraisers (use of transaction approach and other methods).

ii) Membership rights

Membership rights are included in other financial assets and are classified as financial assets and financial liabilities measured at fair value through profit or loss. Their fair values are mainly based on quoted market prices.

iii) Investment limited partnerships

Investments in limited liability partnerships for investment are included in other financial assets and are calculated based on the amount equivalent to the interests in partnership assets.

iv) Derivative assets and liabilities

Derivative assets and derivative liabilities are included in other financial assets and other financial liabilities, respectively, and are classified as financial assets and liabilities measured at fair value through profit or loss. Derivatives are mainly transactions related to forward exchange contracts and interest rate swaps, and their fair values are calculated based on observable market data presented by counterparty financial institutions.

Fair value hierarchy of financial instruments measured at fair value is as follows:

As of December 31, 2021

(Millions of yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through other comprehensive income				
Other financial assets (shares)	-	-	2,161	2,161
Financial assets measured at fair value through profit or loss				
Other financial assets (membership rights)	-	246	-	246
Other financial assets (investment in investment limited partnerships)	-	-	227	227
Derivative assets	-	41	-	41
Total	-	287	2,388	2,676
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	-	0	-	0
Total	-	0	-	0

As of December 31, 2022

(Millions of yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through other comprehensive income				
Other financial assets (shares)	-	-	2,225	2,225
Financial assets measured at fair value through profit or loss				
Other financial assets (membership rights)	-	268	-	268
Other financial assets (investment in investment limited partnerships)	-	-	509	509
Derivative assets	-	364	-	364
Total	-	633	2,734	3,368
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	-	90	-	90
Total	-	90	-	90

The breakdown of changes in the value of financial instruments classified as Level 3 under the fair value hierarchy is as follows:

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Balance at beginning of period	2,227	2,388
Gain or loss	16	(33)
Profit or loss (Note 1)	(16)	32
Other comprehensive income (Note 2)	33	(65)
Purchase	149	575
Sale	(5)	(195)
Exchange differences on translation of foreign operations	0	0
Balance at end of period	2,388	2,734

Notes: 1. Gain or loss included in profit or loss is related to financial assets measured at fair value through profit or loss and is recognized in “finance income” or “finance costs” in the consolidated statement of profit or loss.

2. Gain or loss included in other comprehensive income is related to financial assets measured at fair value through other comprehensive income and is recognized in “net change in financial assets measured at fair value through other comprehensive income” in the consolidated statement of comprehensive income.

Financial instruments classified as Level 3 consist mainly of unlisted shares. The fair values relating to the financial instruments classified as Level 3 are measured in accordance with relevant internal rules. In measuring fair values, valuation techniques and inputs that most appropriately reflect the nature, characteristics, and risks of the financial instruments to be measured are adopted. The fair values of unlisted shares are measured in accordance with the Group’s accounting policy by the Group’s departments in charge. The measured fair values are reported to superiors along with reasonable grounds for changes in the fair values and also to the management as necessary.

As for financial instruments classified as Level 3, changes in fair values that occur when unobservable inputs are changed to reasonably possible alternative assumptions are not material.

(4) Equity instruments measured at fair value through other comprehensive income

Equity instruments such as shares are held mainly to maintain and strengthen relations with the issuers over the medium to long term and are designated as equity instruments measured at fair value through other comprehensive income. Major investees of equity instruments and their fair values are as follows:

As of December 31, 2021 (Millions of yen)

Investee	Fair value
Spiber Inc.	1,071
Osaka Vacuum, Ltd.	297
Japan Nuclear Fuel Limited	184
Ridge-i Inc.	99
Trans-Tokyo Bay Highway Corporation	80
TOKYO CITY-DEVELOPMENT CO., LTD.	61
Others	366
Total	2,161

As of December 31, 2022 (Millions of yen)

Investee	Fair value
Spiber Inc.	1,071
Osaka Vacuum, Ltd.	328
Regional Fish Institute, Ltd.	295
Trans-Tokyo Bay Highway Corporation	80
Central Japan International Airport Co., Ltd.	52
Sakana Farm, inc.	45
Others	352
Total	2,225

Equity instruments are sold as needed based on the review of their fair values (e.g., market prices) and business necessity. Cumulative gains or losses recognized during the period are reclassified from other components of equity to retained earnings through their sale. The sum of fair values of equity instruments as of the sale during the period as well as the sum of cumulative gains or losses from the sale, are as follows:

(Millions of yen)

Fiscal year ended December 31, 2021		Fiscal year ended December 31, 2022	
Fair value	Cumulative gains or losses	Fair value	Cumulative gains or losses
2,061	(1,024)	197	0

When the Group disposes of its investments or when the fair values of its investments significantly decline, cumulative gains or losses (net of tax) in the financial assets measured at fair value through other comprehensive income, which were recognized in other components of equity, are reclassified from other components of equity to retained earnings. Such amounts during the fiscal years ended December 31, 2021, and 2022 were ¥(795) million and ¥(57) million, respectively.

Dividend income recognized from equity instruments is as follows:

(Millions of yen)

Fiscal year ended December 31, 2021		Fiscal year ended December 31, 2022	
Equity instruments derecognized during the period	Equity instruments held as of the end of the period	Equity instruments derecognized during the period	Equity instruments held as of the end of the period
18	3	0	5

(5) Derivatives and hedge accounting

Hedge accounting adopted by the Group in managing risks is described in “(2) Management of financial risks.”

(Cash flow hedges)

Cash flow hedges refer to hedges against future risks of fluctuations in cash flows. Changes in the fair values of derivative transactions, designated as cash flow hedges, are recognized in other comprehensive income. In the event hedged transactions affect profit or loss, the amount recognized in other components of equity is reclassified to profit or loss.

Derivatives designated as cash flow hedges include forward exchange contracts to hedge foreign exchange fluctuation risks of liabilities denominated in foreign currencies.

In applying the hedge accounting, to confirm an economic relationship in which changes in the cash flows of the hedged item attributable to the hedged risk are offset by the hedging instrument, the Group, in principle, confirms an economic relationship between the hedged item and the hedging instrument through a qualitative assessment as to whether the critical terms of the hedged item and the hedging instrument are consistent and a quantitative assessment as to whether changes in the value of the hedging instrument offset changes in the value of the hedged item when such changes arise from identical risks. Since the Company uses highly effective hedges, it is generally assumed that an ineffective portion of hedges will not occur.

An appropriate hedge ratio, basically 1:1, based on the quantities of hedged items and hedging instruments, is set at the commencement of a hedging relationship.

The fair values of hedging instruments as of December 31, 2021, and 2022 are as follows: On the consolidated statement of financial position, the fair values of assets relating to hedging instruments are included in other financial assets, and the fair values of liabilities relating to hedging instruments are included in other financial liabilities.

(Millions of yen)

As of December 31, 2021	Notional principal	Average rate	Due within one year	Due after one year	Assets	Liabilities
Forward exchange contracts						
EUR	722	USD1.18 /JPY	722	-	28	-
JPY	157	¥112.27 /USD	157	-	4	-
GBP	11	USD1.38 /GBP	11	-	0	-

(Millions of yen)

As of December 31, 2022	Notional principal	Average rate	Due within one year	Due after one year	Assets	Liabilities
Forward exchange contracts						
EUR	115	USD1.00 /JPY	115	-	-	8
JPY	226	¥135.70 /USD	226	-	-	11
GBP	11	USD1.15 /GBP	11	-	-	0

The Group's hedging activities are designed to cover the entire hedged items and, therefore, do not include any hedging transaction that hedges only part of the risk components.

As the amount of the ineffective portion of hedges recognized in profit or loss is not material, descriptions about changes in the fair value of a hedging instrument, used as a basis for identifying the ineffective hedge portion, are omitted.

Other than the above, the fair values of derivative assets and liabilities not designated as hedging instruments are as follows:

(Millions of yen)

	As of December 31, 2021		As of December 31, 2022	
	Assets	Liabilities	Assets	Liabilities
Forward exchange contracts	0	0	294	70
Non-deliverable forward (NDF) contracts	8	-	42	-
Interest rate swap contracts	-	-	28	-

Cash flow hedges as of December 31, 2021, and 2022 are as follows. There are no cash flow hedges arising from hedging relationships for which hedge accounting had been discontinued.

(Millions of yen)

Type of risks	As of December 31, 2021	As of December 31, 2022
Foreign exchange risk	38	(21)

As the amount of the ineffective portion of hedges recognized in profit or loss is not material, descriptions about changes in the fair value of a hedging instrument, used as a basis for identifying the ineffective hedge portion, are omitted.

The effects of the hedging instruments designated as cash flow hedges on the consolidated statement of profit or loss and the consolidated statement of comprehensive income in the fiscal years ended December 31, 2021, and 2022 are as follows:

The amount of the ineffective portion of hedges recognized in profit or loss during each fiscal year was not material.

(Millions of yen)

Type of risks	Main components of reclassification adjustments presented on the consolidated statement of profit or loss	Fiscal year ended December 31, 2021		Fiscal year ended December 31, 2022	
		Other comprehensive income	Reclassification adjustments from other comprehensive income to profit or loss	Other comprehensive income	Reclassification adjustments from other comprehensive income to profit or loss
Foreign exchange risk	Finance income and finance costs	121	(26)	(10)	(49)

36. Changes in liabilities related to financing activities

The changes in liabilities related to financing activities are as follows:

(Millions of yen)

	Short-term borrowings	Long-term borrowings	Bonds payable	Lease liabilities	Total
As of January 1, 2021	23,352	31,371	20,000	23,627	98,350
Changes involving cash flows	8,752	(1,170)	-	(5,058)	2,523
Changes that do not involve cash flows					
New leases	-	-	-	2,073	2,073
Changes due to business combinations	658	2,872	-	491	4,022
Exchange differences on translation	3,059	1,474	-	168	4,702
Other changes	25	(90)	-	439	374
As of December 31, 2021	35,847	34,457	20,000	21,741	112,046
Changes involving cash flows	(12,654)	4,624	10,000	(5,321)	(3,350)
Changes that do not involve cash flows					
New leases	-	-	-	2,984	2,984
Changes due to business combinations	125	-	-	188	313
Exchange differences on translation	4,096	1,580	-	350	6,027
Other changes	64	683	-	562	1,311
As of December 31, 2022	27,480	41,346	30,000	20,506	119,333

37. Related party transactions

(1) Related party transactions

Fiscal year ended December 31, 2021

Not applicable.

Fiscal year ended December 31, 2022

Not applicable.

(2) Compensation for key management personnel

(Millions of yen)

	Fiscal year ended December 31, 2021	Fiscal year ended December 31, 2022
Basic compensation and short-term performance-linked compensation	846	765
Share-based compensation	564	341
Others	40	15
Total	1,451	1,122

38. Commitment

Not applicable.

39. Collaterals

Assets pledged as collateral and corresponding liabilities are as follows:

Assets pledged as collateral

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Buildings and structures	3,693	1,650
Others	1,003	1,016
Total	4,696	2,666

Liabilities corresponding to the above

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Short-term borrowings	13	-
Long-term borrowings	-	-
Total	13	-

40. Contingency

The Group provides guarantees on loans for employee housing and bank loans of The Ebara Hatakeyama Memorial Foundation (a public interest incorporated foundation). The balance of loan guarantees for each fiscal year is as follows:

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Loans guaranteed to employees for housing	23	11
Loans guaranteed to The Ebara Hatakeyama Memorial Foundation (a public interest incorporated foundation)	900	1,645
Total	923	1,656

Loans guaranteed to employees for housing

The Group provides guarantees of bank loans for employee housing. If the debtor is unable to repay the loan that the Group guarantees, the Group is required to bear such amount. Some guaranteed loans are secured by the assets of the debtor.

Loans guaranteed to The Ebara Hatakeyama Memorial Foundation (a public interest incorporated foundation)

The Group guarantees bank loans for The Ebara Hatakeyama Memorial Foundation (a public interest-incorporated foundation). If the debtor is unable to repay the loan the Group guarantees, the Group is required to bear such amount. Some guaranteed loans are secured by the assets of the debtor.

Progress of dispute regarding fire accident at bulky waste treatment facility at the Gifu City Eastern Clean Center

On October 23, 2015, a fire broke out at the bulky waste treatment facility at the Gifu City Eastern Clean Center, which is located in the Akutami section of Gifu City in Gifu Prefecture, when Ebara Environmental Plant Co., Ltd. (hereinafter “EEP”), the Company’s consolidated subsidiary, was making repairs on the facility. EEP is responsible for operating and managing a waste incinerating facility that is located adjacent to the bulky waste treatment facility where the fire occurred.

Regarding this incident, while the Company had been discussing with Gifu City the compensation for related damages, a lawsuit against EEP was filed by Gifu City at the Gifu District Court on January 31, 2019, claiming compensation for damages of ¥4,362 million and late charges for such compensation. Afterward, Gifu City amended its compensation claim amount for damages to ¥4,474 million and late charges for such compensation on July 22, 2019 (received on July 25, 2019). On July 17, 2020, the amount of the compensation claim for damages was amended to ¥4,582 million, and late charges for such compensation (received on July 20, 2020), and on August 10, 2021, the compensation claim for damages was amended to ¥4,692 million and late charges for such compensation (received on August 25, 2021).

At this time, it is not possible to make a reasonable estimate of the effect of this incident on the Group’s consolidated financial results.

41. Hyperinflation adjustment

The Group, in accordance with the requirements of IAS 29, includes the financial statements of its subsidiary in a hyperinflationary economy in the Group's consolidated financial statements upon restatement in the measuring unit current at the end of the reporting period.

Among them, the Group uses the conversion coefficients calculated from the Turkish consumer price index announced by the Turkish Statistical Institute to restate the financial statements of its Turkish subsidiary.

The Turkish consumer price index and conversion coefficient corresponding to each reporting date are as follows.

Reporting date	Consumer price index (Note)	Conversion coefficient
April 30, 2021	532	212
June 30, 2021	547	206
September 30, 2021	571	198
December 31, 2021	687	164
March 31, 2022	844	134
June 30, 2022	978	115
September 30, 2022	1,047	108
December 31, 2022	1,128	100

Note: The reference period in which the consumer price index was 100 was 2003.

At the subsidiary in a hyperinflationary economy, non-monetary items such as goodwill and intangible assets carried at cost are restated using the conversion coefficient on the acquisition date. Monetary and non-monetary items stated at current cost are thought to be presented in the measuring unit current at the end of the reporting period and thus are not restated.

The financial statements of the subsidiary in a hyperinflationary economy are translated at the spot exchange rate prevailing on the balance sheet date and reflected in the Group's consolidated financial statements.

The impact of restating and translating the non-monetary items at the spot exchange rates is presented in exchange differences in the translation of foreign operations through other comprehensive income. Additionally, the impact of inflation associated with the net monetary position is presented as finance income or finance costs.

The consolidated financial statements of the fiscal year subject to comparison are not restated and presented in accordance with Paragraph 42 (b) of IAS 21, The Effects of Changes in Foreign Exchange Rates.

42. Subsequent events

Not applicable.

(2) Other information

(i) Quarterly results for the fiscal year ended December 31, 2022

(Cumulative period)		First quarter	Second quarter	Third quarter	Full year
Revenue	(Millions of yen)	152,808	312,418	480,054	680,870
Profit before tax	(Millions of yen)	15,569	28,177	42,549	69,481
Profit attributable to owners of parent	(Millions of yen)	10,251	18,065	27,294	50,488
Basic earnings per share	(Yen)	111.44	196.35	296.61	548.61

(Accounting period)		First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share	(Yen)	111.44	84.92	100.27	251.95

(ii) Information after the closing date

Not applicable.

(iii) Litigation

For more details, please refer to “40. Contingency.”

VI. Outline of Stock Administration of the Reporting Company

Fiscal year	From January 1 to December 31
Ordinary General Meeting of Shareholders	March
Record date	December 31
Record date of dividends of surplus	June 30 December 31
Number of shares constituting one unit	100 shares
Buyback or additional sale of shares of less than one unit	
Transfer agent	(Special account) 1-4-1, Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department
Stock registry administrator	(Special account) 1-4-1, Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Forwarding office	–
Share buyback or additional sale fees	Separately specified amount equivalent to share trading brokerage fees
Method of public notice	Electronic public notice is used; provided, however, that when electronic public notice cannot be used due to an accident or any other unavoidable reason, the public notices shall be given in The Nikkei (Nihon Keizai Shimbun) newspaper. https://www.ebara.co.jp/en/
Shareholder benefits	None

Note: The Company's Articles of Incorporation stipulate that shareholders of the Company with shares of less than one unit may not exercise rights other than the right specified in each item of Article 189, Paragraph 2 of the Companies Act; the right to demand buyback of shares with put option held by such shareholders; the right to receive the allotment of shares for subscription and the allotment of subscription rights to shares in accordance with the number of shares they hold; and the right to demand additional sale of shares of less than one unit to make full shares.

VII. Reference Information of the Reporting Company

1. Information about Parent of Reporting Company

The Company has no parent company, etc.

2. Other Reference Information

The Company submitted the following documents during the period from the beginning of the current fiscal year to the date of submission of the annual securities report.

(1) Annual securities report and documents attached thereto, and confirmation letter thereof	Fiscal year (the 157th)	(from January 1, 2021 to December 31, 2021)	March 30, 2022 Submitted to the Director of the Kanto Local Finance Bureau
(2) Internal control report and documents attached thereto			March 30, 2022 Submitted to the Director of the Kanto Local Finance Bureau
(3) Quarterly securities reports and attached documents			
	(1st Quarter of the 158th)	(from January 1, 2022 to March 31, 2022)	May 13, 2022 Submitted to the Director of the Kanto Local Finance Bureau
	(2nd Quarter of the 158th)	(from April 1, 2022 to June 30, 2022)	August 12, 2022 Submitted to the Director of the Kanto Local Finance Bureau
	(3rd Quarter of the 158th)	(from July 1, 2022 to September 30, 2022)	November 14, 2022 Submitted to the Director of the Kanto Local Finance Bureau
(4) Extraordinary report			
Extraordinary report pursuant to Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 9-2 (Results of exercise of voting rights at a general meeting of shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs			March 30, 2022 Submitted to the Director of the Kanto Local Finance Bureau
Extraordinary report pursuant to Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 9-4 (Change to the certified public accountant, etc.) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs			March 6, 2023 Submitted to the Director of the Kanto Local Finance Bureau
(5) Securities registration statement and documents attached thereto			
(Issuance of shares of common stock as restricted stock compensation)			April 13, 2022 Submitted to the Director of the Kanto Local Finance Bureau

(6) Shelf registration statement and documents attached thereto	November 18, 2022 Submitted to the Director of the Kanto Local Finance Bureau
(7) Amended shelf registration statement	March 7, 2023 Submitted to the Director of the Kanto Local Finance Bureau

Part 2. Information on Reporting Company's Guarantor

Not applicable.

(For Translation Purpose Only)

Independent Auditor's Report

March 30, 2023

The Board of Directors
EBARA CORPORATION

Ernst & Young ShinNihon LLC
Tokyo, Japan

Designated Engagement Partner Certified Public Accountant	Mineo Kanbayashi
Designated Engagement Partner Certified Public Accountant	Takayuki Ando
Designated Engagement Partner Certified Public Accountant	Keita Tsujimoto

Opinion

We have audited the accompanying consolidated financial statements of EBARA CORPORATION and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2022, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor’s opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><td colspan="2">Management’s estimates of the total costs used for revenue recognition from construction contracts</td></tr>
<tr><th>Description of Key Audit Matter</th><th>Auditor’s Response</th></tr>
<tr><td>The Group is engaged in manufacturing, sales, construction, and maintenance for the following segments:
- Fluid Machinery & Systems segment, which specializes in rotary machineries, such as pumps and compressors;
- Environmental Plant segment, which includes municipal waste incinerators and other environmental plants; and
- Precision Machinery segment, which manufactures machinery and equipment for semiconductor manufacturing equipment.
As described in Note 3, “Significant Accounting Policies, (13) Revenue,” and Note 4, “Significant Accounting Estimates and Related Judgments,” for certain construction and maintenance contracts involving pumps, compressors, and turbines in the Fluid Machinery & Systems segment and the Environmental Plant segment, the Group recognizes revenue as the related performance obligations are satisfied over a period of time to reflect the transfer of control of the product or services to the customer. The Group estimates the percentage of completion using actual costs incurred to estimated total costs (input method) when the progress of satisfying the corresponding performance obligations can be reliably measured.
Revenue recognition for such contracts and maintenance contracts or similar contracts is determined using estimates of total costs. These contracts include those whose contractual amounts are significant, those with long construction periods, or those with highly customized specifications. Estimating the total cost of highly customized contracts is complex, and it is difficult to obtain objective measurements. In addition, it requires the project control manager, who possesses specialized knowledge and experience with</td><td>We performed the following audit procedures to evaluate management’s estimates of the total costs of construction contracts and maintenance or similar contracts used for revenue recognition.
(1) Assessment of internal controls
We evaluated the design and operational effectiveness of internal controls overestimates of total costs for the Group as follows.
- The execution budget, which is used as the basis for estimating total costs, is prepared by project personnel with relevant field experience and deemed to be reliable with the necessary approvals. The execution budget is prepared and authorized in order to perform cost management for each project.
- The system developed by the Group to revise estimates of total costs in a timely manner considering the status of the construction projects, actual costs incurred, or specification changes as instructed by the customer.
- The system for effective and timely monitoring under the project management department, which is responsible for profit or loss management and monitoring the percentage of completion of each project from the perspective of reliability of the total costs.
(2) Assessing the reasonableness of estimates of total costs
Considering the financial materiality of the contract amount, the contract terms and conditions, and the duration of the construction activity, certain projects were selected, and the following procedures were performed.</td></tr>
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these types of projects, to determine certain assumptions and exercise judgment. Furthermore, for contracts with long construction periods involving projects where the construction period may be subject to contractual changes during the course of the project, construction delays, or fluctuations in unit costs of construction materials and labor or other inputs, making timely and appropriate adjustments to estimated total costs is a complex process. Therefore, such estimated total costs are subject to a high level of uncertainty, and management judgment significantly affects the estimation. As described above, the audit of the estimates of total costs, which serve as a basis for revenue recognition of construction and maintenance contracts, requires consideration of various estimation assumptions depending on the project, and therefore, we identified this as a key audit matter.	- We evaluated the estimates of total costs by analyzing the contractual documentation, the execution budget, and process control documents to assess, firstly, whether the estimates of total costs are consistent with the contract details, secondly, whether they are calculated appropriately by aggregating the cost elements, and lastly, whether the execution budget excludes any unusual adjustment items. - In the event that total costs differed from normal historical trends over certain threshold amounts, we inquired with project managers whether such differences were the result of actual circumstances affecting the projects. - We inquired with management and the project manager about the status of projects and the determination as to whether or not the total costs of the project should be adjusted and assessed their responses in light of the process chart and historical trends related to costs incurred. We also identified significant assumptions used in the calculation of the estimates of total costs, which related to technical specifications, and other details, and assessed the management judgments regarding the impact of uncertainty in estimation assumptions. - We also conducted construction site or manufacturing floor visits and examined whether the progress of the projects was consistent with the total cost estimates and the estimated percentage of progress. - We assessed the process used to estimate total costs by comparing the original estimates of total costs with the total actual costs incurred or the latest estimates of the total costs.

Valuation of goodwill related to Vansan Makina Sanayi ve Ticaret A.Ş	
Description of Key Audit Matter	**Auditor's Response**
As described in Note 13, "Impairment of Non-financial Assets, (3) Impairment test on Goodwill," the Group has recognized goodwill related to Vansan Makina Sanayi ve Ticaret A.Ş (hereinafter "Vansan") in the amount of	We performed the following audit procedures to evaluate the valuation of related goodwill. (1) Valuation method We engaged a valuation expert from our network firm to review the valuation

¥6,617 million in the consolidated statement of financial position and has disclosed the assumptions used in the impairment test of goodwill. In the current fiscal year, since the discount rate used in the impairment test on the goodwill rose to 39.8% due to increased country risk associated with the uncertainty over the outlook of the Turkish economy, part of the corresponding goodwill was not expected to be recoverable. Accordingly, the Group has written down the book value to the recoverable amount and has recognized impairment losses on such goodwill in the amount of ¥1,472 million in the consolidated statement of income for the fiscal year ended December 31, 2022. In performing the impairment test, the Group measures the recoverable amount of a cash-generating unit or groups of cash-generating units, including goodwill, using value-in-use. The value-in-use is calculated as the discounted present value of future cash flows, which are based on a five-year business plan approved by management. For the period after the business plan, the perpetual growth rate estimated within a range of expected long-term market growth rates is used. The key assumptions in estimating value-in-use are the estimated five-year future cash flows, perpetual growth rate, and discount rate. The underlying business plan for future cash flows is primarily influenced by the sales growth rate and operating margins of products, mainly pumps, in the markets in which Vansan operates. Furthermore, the discount rate is influenced by changes in country risk due to the changes in the economic environment. Testing goodwill for impairment is complex, and the above key assumptions in estimating value-in-use are subject to uncertainty and require management's judgment. Therefore, we identified this as a key audit matter.	methodology used in the value-in-use calculations. (2) Five-year future cash flows - We verified the consistency with the five-year future cash flow projections approved by management. - We inquired with management about sales growth rate and operating margin, which are the basis for determining future cash flows, and compared them with available external information, such as market forecasts or historical results. - We compared the inflation rate, which is used in determining future cash flows, with available external information. - To assess the effectiveness of management's estimation process in developing future cash flow plans, we compared the future cash flow plans prepared at the time of the prior year impairment test with the actual results obtained in subsequent periods. (3) Perpetual growth rate and discount rate - We engaged a valuation expert from our network firm to review the consistency of the input information used to estimate the perpetual growth rate and discount rate with external information, such as expected long-term market growth rates. (4) Adjustments to book value due to hyperinflation - We examined the accuracy of the calculation of the book value of Vansan, a company in a hyperinflationary economy, in accordance with IAS 29 "Financial Reporting in Hyperinflationary Economies."

Other Information

The other information comprises the information included in the Annual Securities Report other than the consolidated financial statements, non-consolidated financial statements and our auditor's reports thereon. Management is responsible for preparation and disclosure of the other information. The Audit Committee is responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by IFRSs, matters related to going concern.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with IFRSs.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.