

(Translation)

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March 7, 2019

## Matters Disclosed on the Internet Pursuant to Laws, Regulations and the Articles of Incorporation When Providing Notice of the 154th Ordinary General Meeting of Shareholders

### 154th Consolidated Fiscal Year

(From January 1, 2018 to December 31, 2018)

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## EBARA CORPORATION

Of the documents to be provided with Notice of the 154th Ordinary General Meeting of Shareholders, the Consolidated Statement of Changes in Net Assets in the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements, along with the Non-consolidated Statement of Changes in Net Assets in the Non-consolidated Financial Statements and the Notes to the Non-consolidated Financial Statements are provided to shareholders on the Company's website

(<https://www.ebara.co.jp/en/about/ir/stock/shareholdersmeeting/index.html>) in accordance with laws and regulations and Article 15 of the Articles of Incorporation.

**Consolidated Statement of Changes in Net Assets**

From January 1, 2018  
to December 31, 2018

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
<b>Balance at January 1, 2018</b>	78,815	81,256	121,321	(431)	280,962
<b>Changes of items during period</b>					
Issuance of new shares	251	251			502
Cash dividends			(4,575)		(4,575)
Profit attributable to owners of parent			18,262		18,262
Change of scope of consolidation			707		707
Purchase of treasury shares				(5,008)	(5,008)
Change in ownership interest of parent due to transactions with noncontrolling interests		(1,211)			(1,211)
Net changes of items other than shareholders' equity					
<b>Total changes during the period</b>	251	(960)	14,393	(5,008)	8,676
<b>Balance at December 31, 2018</b>	79,066	80,296	135,715	(5,439)	289,639

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Net unrealized gains (losses) on investment securities	Deferred gains (losses) on hedges	Translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
<b>Balance at January 1, 2018</b>	2,564	10	2,628	(8,210)	(3,007)	1,163	5,668	284,788
<b>Changes of items during period</b>								
Issuance of new shares								502
Cash dividends								(4,575)
Profit attributable to owners of parent								18,262
Change of scope of consolidation								707
Purchase of treasury shares								(5,008)
Change in ownership interest of parent due to transactions with noncontrolling interests								(1,211)
Net changes of items other than shareholders' equity	(2,182)	(68)	(3,854)	(885)	(6,992)	(11)	317	(6,686)
<b>Total changes during the period</b>	(2,182)	(68)	(3,854)	(885)	(6,992)	(11)	317	1,989
<b>Balance at December 31, 2018</b>	381	(57)	(1,226)	(9,096)	(9,999)	1,152	5,985	286,778

## Notes to the Consolidated Financial Statements

### Significant Accounting Principles

#### 1. Scope of consolidation

##### (1) Number of consolidated subsidiaries and names of significant consolidated subsidiaries

Number of consolidated subsidiaries	60
Names of significant consolidated subsidiaries	Elliott Ebara Turbomachinery Corporation EBARA REFRIGERATION EQUIPMENT & SYSTEMS CO., LTD. EBARA DENSAN LTD. EBARA FAN & BLOWER CO., LTD. Ebara Environmental Plant Co., Ltd. EBARA FIELD TECH. CORPORATION EBARA AGENCY CO., LTD. Ebara International Corporation EBARA BOMBAS AMÉRICA DO SUL LTDA. Ebara Machinery (China) Co., Ltd. EBARA MACHINERY ZIBO CO., LTD. EBARA GREAT PUMPS CO., LTD. Ebara Engineering Singapore Pte. Ltd. Ebara Pumps Europe S.p.A. Elliot Company Elliott Ebara Singapore Pte. Ltd. EBARA REFRIGERATION EQUIPMENT & SYSTEMS (CHINA) CO., LTD. EBARA QINGDAO CO., LTD. Ebara Technologies Incorporated SHANGHAI EBARA PRECISION MACHINERY CO., LTD. Ebara Precision Machinery Korea Incorporated Ebara Precision Machinery Taiwan Incorporated Ebara Precision Machinery Europe GmbH

##### (2) Change in scope of consolidation

Ebara Vietnam Pump Company Limited, Ebara Pumps Middle East FZE and Elliott Korea Co., Ltd. were included in the scope of consolidation according to the standard for determining importance concerning the scope of consolidation, and newly incorporated EBARA PUMPS AMERICAS CORPORATION and HEFEI EBARA PRECISION MACHINERY CO., LTD. were also included in the scope of consolidation. Thebe Bombas Hidráulicas LTDA (trade name changed from Thebe Bombas Hidráulicas S.A. during the current fiscal year), which was a consolidated subsidiary, was excluded from the scope of consolidation since it ceased to exist through an absorption-type merger in which consolidated subsidiary Ebara Industrias Mecánicas e Comercio Ltda. was the surviving entity. Ebara Industrias Mecánicas e Comercio Ltda. changed its trade name to EBARA BOMBAS AMÉRICA DO SUL LTDA. EBARA MATERIAL CORPORATION which was a consolidated subsidiary, was excluded from the scope of consolidation due to the completion of its liquidation.

##### (3) Names of significant non-consolidated subsidiaries

EBARA DENSAN (QINGDAO) TECHNOLOGY CO., LTD.

Reason for removal from scope of consolidation

The accounts of non-consolidated subsidiaries are not included in the consolidated financial statements owing to insignificance in the volume of assets, sales, profit (loss) and retained earnings.

#### 2. Equity method

##### (1) Number of non-consolidated subsidiaries and affiliated companies to which the equity method is applied

Number of non-consolidated subsidiaries to which the equity method is applied	
None	
Number of affiliated companies to which the equity method is applied	1
Swing Corporation	

##### (2) Names of non-consolidated subsidiaries and affiliated companies to which the equity method is not applied

EBARA DENSAN (QINGDAO) TECHNOLOGY CO., LTD.

#### Reason for not applying the equity method

Non-consolidated subsidiaries and affiliated companies are not applied equity method owing to insignificance in volume of profit (loss) and retained earnings.

#### (3) Fiscal year-end of affiliated companies to which the equity method is applied

Since the fiscal year of the affiliated companies to which the equity method is applied ends on March 31, they use financial statements based on provisional settlement implemented on fiscal year-end of consolidated accounts when preparing the consolidated financial statements.

#### 3. Fiscal year-end of consolidated subsidiaries

The fiscal year-end of consolidated subsidiaries is the same as the consolidated fiscal year-end.

#### 4. Significant accounting policies

##### (1) Valuation standards and valuation methods of assets

###### Securities

###### Held-to-maturity securities

Amortized cost method

###### Other securities

###### Other securities with market value

Securities with a market value are stated at market value, and unrealized gains or losses, net of tax, are credited or debited to net assets as shown in the balance sheet. Cost of securities sold is determined using the gross average cost method.

###### Other securities without market value

Gross average cost method

###### Derivatives

Fair market value method

###### Inventories

Merchandise and finished goods as well as raw materials and supplies are primarily measured using the gross average cost method, except for in the Precision Machinery Group, which employs the moving average method. Work in process is measured using the specific identification cost method. For presentation on the balance sheet, inventories are measured at book value or written-down value to account for the decline in their profitability if necessary.

##### (2) Fixed assets and related depreciation

###### 1) Tangible fixed assets (except leased assets)

Primarily, the straight-line method is used.

Note that the method for depreciating minor assets valued from ¥100,000 to less than ¥200,000 is the lump-sum method specified in the Japanese Corporation Tax Act, and these assets are depreciated in equal amounts over a three-year period.

###### 2) Intangible assets and investments and other assets (except leased assets)

Intangible assets are mainly amortized on a straight-line basis, according to the criteria specified in the Japanese Corporation Tax Act.

Software used in the Company is amortized on a straight-line basis for the estimated useful lives, five years.

###### 3) Leased assets

Leased assets under finance lease transactions that do not transfer ownership of the asset to the lessee are depreciated on a straight-line basis over the lease term and have a residual value of zero.

##### (3) Standards of significant allowance

###### 1) Allowance for doubtful accounts

Allowance for doubtful accounts is provided based on past experience for normal receivables and on a separate estimate of the collectability of receivables from individual companies in financial difficulty.

###### 2) Bonus payment reserve

Bonus payment reserve is provided based on the future liabilities.

###### 3) Directors' bonus payment reserve

Directors' bonus payment reserve is provided based on the future liabilities.

###### 4) Reserve for directors' retirement benefits

In domestic consolidated subsidiaries, reserve for directors' retirement benefits is accrued at the amounts of the future liabilities in relation to the length of service at the balance sheet date and included in accrued severance and pension costs.

###### 5) Reserve for losses on construction completion guarantees

To cover for possible expenses arising from collateral against defects, the Group makes reasonable

- estimates of the ratio of such expenses and uses this ratio to derive provisions for such losses.
- 6) Reserve for product warranties  
To cover for expenses related to defect guarantees related to sales contracts, the amount of such warranties is estimated by multiplying a reasonable percentage of defects by the value of product sales.
  - 7) Reserve for construction losses  
To cover for possible losses on construction projects contracted to the Company, the Company makes estimates of such losses for those uncompleted projects deemed to have a high possibility of incurring losses and for which such construction losses can be reasonably estimated.
  - 8) Reserve for expenses related to the sales of land  
Accompanying the sales of the land formerly occupied by the Company's Haneda Plant, the estimated cost of restoring this land to its original condition has been recognized.
  - 9) Provision for loss on litigation  
To cover for possible losses on lawsuits, the Company estimates the amount of losses that may emerge in the future and sets aside the amount deemed necessary.
- (4) Significant accounting principles
- 1) Consumption tax  
Consumption taxes are accounted for using the net-of-tax method.
  - 2) Significant hedging accounting methods
    - i. Hedging transactions  
Gains or losses and evaluation differences related to hedging transactions accounted for at fair market value are deferred as assets or liabilities until recognized. Evaluation gains and losses on foreign exchange contracts are allocated to settlement periods throughout the period of the contract. Interest rate swaps are treated as special exceptions.
    - ii. Hedging instruments and hedging objects
 

Hedging instruments	Foreign exchange forward contracts, foreign currency option contracts and interest rate swap agreements were used.
Hedging objects	Currency exchange rate risk and interest rate risk on existing assets and liabilities in foreign currencies are hedging objects.
    - iii. Hedging policy  
The Company and its consolidated subsidiaries hedge currency exchange rate risk on existing assets and liabilities in foreign currencies and interest-rate risk based on internal risk management policy.
    - iv. Assessing the effectiveness of hedging
 

Interest risk	The effectiveness of hedging is assessed by comparing the accumulated cash flows between hedging instruments and hedging objects. However, with regard to the interest rate swaps that meet the requirements for special exceptions, the assessments are omitted.
Currency exchange rate risk	As long as one hedging instrument and one hedging object correspond, the hedge is considered effective.
  - 3) Method and period for amortization of goodwill  
The Company has set 20 years as a reasonable period for the amortization of goodwill and uses the straight-line method to determine the amount to be amortized in each period. Those goodwill items that are not deemed to be material may be amortized in periods when they arise.
  - 4) Accounting treatment regarding net defined benefit liability
    - i. Method of attribution of projected benefit obligations  
In the calculation of defined benefit liability, the method used to attribute projected benefit obligations in the period up to the end of the current fiscal year is benefit formula basis.
    - ii. Method of amortization of actuarial gain or loss and past service cost  
Past service cost is amortized using the straight-line method over a certain number of years within the average remaining service period of employees at the time of accrual.  
Actuarial gain or loss is amortized starting in the fiscal year following the fiscal year in which it occurs using the declining-balance method over a certain number of years within the average remaining service period of employees.
    - iii. Adoption of the simplified accounting method in small companies, etc.  
Certain consolidated subsidiaries adopt the simplified accounting method in calculating their net defined benefit liabilities and retirement benefit expenses. Under the simplified method, retirement obligations are calculated as retirement and severance costs that would be incurred if all employees retired at the end of the accounting period under review.

- 5) Recognition of revenue and costs  
 Standard for cost of completed work and construction revenue  
 The percentage-of-completion method has been applied for the completion of a portion of the construction work is deemed to be certain by the end of the current fiscal year. (The percentage of completion is estimated based on the percentage of cost incurred compared with the estimated total cost). For other construction work, the completed-contract method has been applied.
- 6) Consolidated taxation system  
 A consolidated tax system is applied.

**Notes to the Consolidated Balance Sheet**

1. Collateral assets and collateral for loans	
(1) Collateral assets for bank loans	
Buildings and structures	¥3,512 million
Others	¥481 million
Total	<u>¥3,994 million</u>
(2) Amount of bank loans	
Short-term loans payable	¥205 million
Long-term loans payable	¥337 million
Total	<u>¥543 million</u>
2. Accumulated depreciation of tangible fixed assets	¥210,138 million
3. Commitments and contingent liabilities	
(1) Loans guaranteed to employees	¥57 million
(2) Loans guaranteed to non-consolidated subsidiaries and affiliates	
Ise E Service Co., Ltd.	¥643 million
Ebara Bombas Colombia S.A.S.	¥74 million
Engaru E Service Co., Ltd.	¥30 million
Yokote E Service Company	¥25 million
EBARA PUMPS SAUDI ARABIA LLC	¥19 million
Funabashi E Service Co., Ltd.	¥2 million
Total	<u>¥795 million</u>

## Notes to the Consolidated Statement of Changes in Net Assets

### 1. Type and number of shares issued

Type of shares	Number of shares as of January 1, 2018	Increase	Decrease	Number of shares as of December 31, 2018
Common stock	101,783,253	174,600	-	101,957,853

Note: Increase in common shares issued of 174,600 was an increase of 70,000 shares due to the exercise of subscription rights to shares and an increase of 104,600 shares due to the issuance of new shares as restricted share-based compensation.

### 2. Items related to dividend

#### (1) Payment of dividends

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Base date	Effective date
March 28, 2018 at the Ordinary General Meeting of Shareholders	Common stock	1,523	15.00	December 31, 2017	March 29, 2018
August 9, 2018 at the Board of Directors Meeting	Common stock	3,051	30.00	June 30, 2018	September 10, 2018

(2) Mention related to any dividends belonging to the base date of the period for which the effective date falls after the end of the interim period

The proposal at the Ordinary General Meeting of Shareholders to be held on March 28, 2019 related to dividends of Common Stock is as follows;

Date of approval	Type of shares	Total dividends (Millions of yen)	Dividend resource	Dividends per share (Yen)	Base date	Effective date
March 28, 2019 at the Ordinary General Meeting of Shareholders	Common stock	3,000	Retained earnings	30.00	December 31, 2018	March 29, 2019

### 3. Subscription rights to shares

Subscription rights to shares

Common stock 467,800 shares

## Notes to Financial Instruments

### 1. Status of financial instruments

#### (1) Policies regarding financial instruments

The Company raises the necessary long-term funds for its capital investment and other requirements from bank borrowings, the issuance of bonds, and other means. Short-term working capital is raised through bank borrowings and commercial paper issues. Available short-term funds are invested in highly secure financial assets. In addition, as noted below, derivatives are used to avoid risk, and the Company's policy is not to use derivatives for speculative purposes.

#### (2) Types of financial products and systems for risk management

Notes and accounts receivable-trade, and electronically recorded monetary claims, which are operating assets, are exposed to customer credit risk. In addition, since the Company conducts its business activities globally, its operating assets denominated in foreign currencies are exposed to foreign currency risk. To manage foreign currency risk, the Company hedges its net foreign currency assets and liabilities position through the use of foreign currency borrowings and deposits. The Company's consolidated subsidiaries use foreign currency forward contracts to hedge foreign currency exposure.

Securities and investment securities are principally certificates of deposit, money market funds (MMFs) and stocks in financial institutions and other companies that are held for business relationship purposes and are, therefore, exposed to market price fluctuations.

Notes and accounts payable-trade and electronically recorded obligations, which are operating liabilities, are settled, for the most part, within one year. In addition, a portion of these, which arise in connection with imports of motors and other items, are denominated in foreign currencies and are exposed to foreign currency risk; however, in general, the balance of these liabilities is within the amounts of accounts receivable-trade denominated in foreign currencies. Among these, a portion of borrowings have floating interest rates and are subject to interest-rate risk. These are hedged through the use of derivatives (interest-rate swaps).

Derivative transactions comprise forward exchange contract transactions for the purpose of hedging exchange rate fluctuation risk for trade payables and receivables denominated in foreign currencies and interest rate swap transactions for the purpose of hedging interest rate fluctuation risk for interest payable on loans. Please note that further information on hedge accounting, including hedging instruments, hedging objects, hedging policy, and assessing the effectiveness of hedging may be found in a previous section entitled "Significant hedging accounting methods" contained in the section Significant accounting principles.

#### (3) Risk management systems for financial instruments

##### 1) Management of credit risk (risk related to nonperformance of contractual obligations by transaction counterparties)

Regarding operating assets, the Company's finance and business departments, based on the Company's regulations related to credit management, monitor the conditions of principal business customers and supervise the payment dates and balances by customers with the aims of identifying possible deterioration in the financial conditions of customers and other issues related to the recovery of exposure at an early date and taking steps to minimize credit risk. The Company's consolidated subsidiaries have also adopted the same method of management.

For securities held to maturity, under the Company's policies, investments are made only in securities with high credit ratings, and the credit risk of these investments is minimal.

The maximum value of credit risk, as of the fiscal year-end, is shown by the value on the balance sheets of financial assets subject to credit risk.

##### 2) Management of market risk (risk of fluctuations in foreign currency rates, interest rates, and other indicators)

To manage foreign currency risk, assets and liabilities denominated in foreign currencies are classified by currency, and risk is hedged through the use of foreign currency borrowings and deposits. Also, for foreign currency assets and liabilities, the Company makes use of foreign currency forward contracts to hedge its exposure. Please note that depending on conditions in foreign currency market, the Company makes arrangements for foreign currency forward contracts for foreign currency denominated receivables and payables resulting from highly probable forecasted transactions. To hedge against interest-rate fluctuations, the Company makes use of interest-rate swaps.

For securities and investment securities, the Company regularly confirms the market prices and the financial condition of the issuers (transactions counterparties). In addition, for securities other than those held to maturity, the Company reviews the appropriateness of holding such securities on a continuing basis, taking account of the relationship with the issuer (counterparty).

For derivatives, the Company and its consolidated subsidiaries manage such exposure based on the



Company's policies for management of financial instruments.

- 3) Management of liquidity risk related to fund-raising (risk of being unable to meet payment obligations on the scheduled date)

The Company's finance department prepares and revises cash flow plans based on reports from each of the Company's departments and manages liquidity risk by maintaining a volume of liquidity appropriate for business conditions. Also, as an alternative to liquid assets, the Company manages its liquidity by arranging for commitment lines in a specified amount.

- (4) Supplementary information on the fair value, etc., of financial instruments

The fair value of financial instruments, in addition to values based on market prices, includes the value of instruments that do not have market prices that have been calculated based on reasonable methods. Since factors that may fluctuate are taken into account in these calculations, the respective values may change when different assumptions are adopted.

In addition, the contract value of derivatives, as contained in "2. Information on the fair value, etc., of financial instruments," does not indicate the value of the market risk of these derivative transactions.

2. Information on the fair value, etc., of financial instruments

The amounts shown on the consolidated balance sheets as of December 31, 2018 (the Company's fiscal year-end), the corresponding fair values, and differences between book and fair value are as follows.

(Millions of yen)

	On consolidated balance sheets	Fair value	Difference
(1) Cash and deposits	110,610	110,610	-
(2) Notes and accounts receivable-trade	176,895		
(3) Electronically recorded monetary claims	6,990		
Allowance for doubtful accounts 1	[3,308]		
	180,577	180,543	[33]
(4) Securities and investment securities	8,409	8,409	-
(5) Notes and accounts payable-trade	[63,320]	[63,320]	-
(6) Electronically recorded obligations	[62,854]	[62,854]	-
(7) Short-term loans payable	[46,766]	[46,766]	-
(8) Bonds payable	[10,000]	[10,051]	[51]
(9) Long-term loans payable	[20,730]	[20,926]	[196]
(10) Derivatives transactions 2	[72]	[72]	-

(\*1) Allowance for doubtful accounts is excluded. Please note that allowance for doubtful accounts is presented as a single item to be deducted from notes receivable-trade, accounts receivable-trade, electronically recorded monetary claims, and accounts receivable-other.

(\*2) Receivables and payables arising from derivative transactions are presented as net amounts, and items that are net amounts payable are shown in [ ].

Note 1 Methods of calculating the fair value of financial instruments and matters related to securities and derivatives

- (1) Cash and deposits

These items are settled within short periods and are shown at their respective book value, which approximates their fair values.

- (2) Notes and accounts receivable-trade and (3) Electronically recorded monetary claims

The fair value of these financial instruments is calculated, by specified period and type of security, as the present value by discounting the cash flow to maturity using a discount rate that takes account of credit risk.

- (4) Securities and investment securities

The fair value for stocks is based on quoted market prices. The value for bonds is determined using the price provided by exchanges or financial institutions. Also, certificates of deposit are settled

within short periods and are shown at their respective book value, which approximates their fair values.

- (5) Notes and accounts payable-trade, (6) Electronically recorded obligations, and (7) Short-term loans payable

These items are settled within short periods and are shown at their respective book value, which approximates their fair values.

- (8) Bonds payable and (9) Long-term loans payable

These fair values are calculated using the interest rate that would be required upon entering into new borrowings with similar terms. Long-term loans payable at floating interest rates are hedged through interest-rate swaps using special treatment accounting (refer to (10)). The fair value is calculated as the total amount of the principal and interest payments accounted for in combination with the interest rate swap, which is discounted by the applied interest rate that would be reasonably estimated upon entering into borrowings with similar terms.

- (10) Derivatives transactions

- 1) Derivatives for which hedge accounting is not applied

Omitted due to lack of significance.

- 2) Derivatives for which hedge accounting is applied

The fair values of derivatives for which hedge accounting is applied are based on the prices provided by financial institutions with which the Company has transactions. Those items given special treatment as interest rate swaps are treated together with long-term loans payable that are subject to hedging; therefore, their fair values are presented together with the fair value of the related long-term loans payable (refer to (9) above).

Note 2 Shares of unlisted companies, associates companies, and certain others (amounting to ¥15,560 million on the consolidated balance sheet), for which fair values are not available, and for which ascertaining fair value would be extremely difficult, have not been included in “(4) Securities and investment securities.”

#### Notes to Per Share Data

1. Net assets per share of common stock	¥2,795.72
2. Net income per share	¥179.94

#### Significant Subsequent Events

At a meeting on February 13, 2019, the Board of Directors passed a resolution to repurchase shares of its common stock, pursuant to provisions in Article 459, paragraph 1 of the Companies Act and in Article 38 of the Company's Articles of Incorporation.

1. Purpose of repurchase shares of common stock

To improve capital efficiency

2. Details of repurchasing

(1) Type of stock: Common stock of Ebara Corporation

(2) Total number of shares: 7,000,000 shares (maximum)

(Ratio to the total number of shares in issue excluding treasury stock: 7.00%)

(3) Total acquisition price of shares: ¥15,000 million (maximum)

(4) Period of repurchase: From February 14, 2019 to September 20, 2019

## **Other Notes**

### **(Litigations)**

- Lawsuit by YAMATO TRANSPORT CO., LTD. Claiming Compensation for Damages of Defect Liability Based on the Sales Agreement of the Land of the Former Haneda Plant  
With regard to the lawsuit against the Company filed by YAMATO TRANSPORT CO., LTD. (hereinafter referred to as “YAMATO TRANSPORT”), claiming compensation for damages demanding the payment of ¥8,505 million by alleging that slate fragments were contained in the soil of the former Haneda District’s land sold by the Company, the Tokyo High Court, on June 28, 2018, ordered the Company to pay ¥5,952 million as part of YAMATO TRANSPORT’s claim and delay damages, and while the Company filed a final appeal against the judgment as well as a petition for acceptance of the final appeal, YAMATO TRANSPORT filed a petition for acceptance of a final appeal. On January 29, 2019, the Supreme Court rejected the Company’s final appeal and also decided not to accept either of the petitions for acceptance of the final appeals by the Company and YAMATO TRANSPORT, and thus the judgment was finalized. As a result of the judgment, in the fiscal year ended December 31, 2018, others in investments and other assets, and provision for loss on litigation in long-term liabilities, which are recorded on the consolidated balance sheet are reversed.

### **(Additional Information)**

- Lawsuit by Gifu City Claiming Compensation for Damages Concerning Fire Accident at the Waste Processing Facility for Bulky Refuse at the Gifu City Eastern Clean Center  
On October 23, 2015, a fire broke out at the waste processing facility for bulky refuse at the Gifu City Eastern Clean Center, which is located in the Akutami section of Gifu City in Gifu Prefecture, as Ebara Environmental Plant Co., Ltd. (“EEP”), the Company’s consolidated subsidiary, was making repairs on the facility. Please note that EEP is responsible for the operation and management of a refuse incinerating facility that is located next to the bulky refuse processing plant where the fire occurred. Regarding this incident, the Company is discussing with Gifu City the compensation for related damages. At this time, it is not possible to make a reasonable estimate of the effect of this incident on the Group’s consolidated performance.

**Non-consolidated Statement of Changes in Net Assets**

From January 1, 2018  
to December 31, 2018

(Millions of yen)

	Shareholders' equity					
	Common stock	Capital surplus			Retained earnings	
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings
				Retained earnings brought forward		
<b>Balance at January 1, 2018</b>	78,815	82,744	7,915	90,659	86,097	86,097
<b>Changes of items during period</b>						
Issuance of new shares	251	251		251		
Cash dividends					(4,575)	(4,575)
Profit					14,532	14,532
Purchase of treasury shares						
Decrease by corporate division			(2,378)	(2,378)		
Net changes of items other than shareholders' equity						
<b>Total changes during the period</b>	251	251	(2,378)	(2,127)	9,956	9,956
<b>Balance at December 31, 2018</b>	79,066	82,995	5,536	88,531	96,054	96,054

	Shareholders' equity		Net unrealized gains (losses)		Subscription rights to shares	Total net assets
	Treasury stock	Total shareholders' equity	Net unrealized gains (losses) on investment securities	Total net unrealized gains (losses)		
<b>Balance at January 1, 2018</b>	(273)	255,298	2,423	2,423	1,163	258,886
<b>Changes of items during period</b>						
Issuance of new shares		502				502
Cash dividends		(4,575)				(4,575)
Profit		14,532				14,532
Purchase of treasury shares	(5,008)	(5,008)				(5,008)
Decrease by corporate division		(2,378)				(2,378)
Net changes of items other than shareholders' equity			(2,178)	(2,178)	(11)	(2,190)
<b>Total changes during the period</b>	(5,008)	3,071	(2,178)	(2,178)	(11)	881
<b>Balance at December 31, 2018</b>	(5,281)	258,370	244	244	1,152	259,767

## Notes to the Non-consolidated Financial Statements

### Significant accounting principles

1. Valuation standards and valuation methods of assets
  - (1) Valuation standards and valuation methods of securities
    - Securities
      - Held-to-maturity securities
        - Amortized cost method
      - Investment in subsidiaries and affiliates
        - Gross average cost method
      - Other securities
        - Other securities with market value
          - Securities with a market value are stated at market value, and unrealized gains or losses, net of tax, are credited or debited to net assets as shown in the balance sheet. Cost of securities sold is determined using the gross average cost method.
        - Other securities without market value
          - Gross average cost method
    - (2) Valuation standards and valuation methods of derivatives
      - Derivatives
        - Fair market value method
    - (3) Valuation standards and valuation methods of inventories
      - Inventories
        - Merchandise and finished goods as well as raw materials and supplies are measured using the gross average cost method, except for in the Precision Machinery Group, which employs the moving average method. Work in process is measured using the specific identification cost method. For presentation on the balance sheet, inventories are measured at book value or written-down value to account for the decline in their profitability if necessary.
2. Fixed assets and related depreciation
  - (1) Tangible fixed assets (except leased assets)
    - The straight-line method is used.
    - Note that the method for depreciating minor assets valued from ¥100,000 to less than ¥200,000 is the lump-sum method specified in the Japanese Corporation Tax Act, and these assets are depreciated in equal amounts over a three-year period.
  - (2) Intangible assets (except leased assets)
    - Intangible assets are mainly amortized on a straight-line basis, according to the criteria specified in the Japanese Corporation Tax Act.
    - Software used in the Company is amortized on a straight-line basis for the estimated useful lives, five years.
  - (3) Leased assets
    - Leased assets under finance lease transactions that do not transfer ownership of the asset to the lessee are depreciated on a straight-line basis over the lease term and have a residual value of zero.
3. Standards of significant allowance
  - (1) Allowance for doubtful accounts
    - Allowance for doubtful accounts is provided based on past experience for normal receivables and on a separate estimate of the collectability of receivables from individual companies in financial difficulty.
  - (2) Bonus payment reserve
    - Bonus payment reserve is provided based on the future liabilities.
  - (3) Directors' bonus payment reserve
    - Directors' bonus payment reserve is provided based on the future liabilities.
  - (4) Provision for retirement benefits
    - The cost of the severance and pension plans, based on actuarial computations of current and future employee benefits, including the unfunded severance indemnities plan, is charged to income.
    - Past service cost is amortized using the straight-line method over a certain number of years within the average remaining service period of employees at the time of accrual.
    - Actuarial gain or loss is amortized starting in the business year following the business year in which it

occurs using the declining-balance method over a certain number of years within the average remaining service period of employees.

However, if pension supposed to be recognized exceed an amount obtained by subtracting actuarial gains or losses from defined benefit liabilities, they are recorded to investments and other assets, as prepaid pension cost.

(5) Reserve for losses on construction completion guarantees

To cover for possible expenses arising from collateral against defects, the Group makes reasonable estimates of the ratio of such expenses and uses this ratio to derive provisions for such losses.

(6) Reserve for product warranties

To cover for expenses related to defect guarantees related to sales contracts, the amount of such warranties is estimated by multiplying a reasonable percentage of defects by the value of product sales.

(7) Reserve for construction losses

To cover for possible losses on construction projects contracted to the Company, the Company makes estimates of such losses for those uncompleted projects deemed to have a high possibility of incurring losses and for which such construction losses can be reasonably estimated.

(8) Reserve for expenses related to the sales of land

Accompanying the sales of the land formerly occupied by the Company's Haneda Plant, the estimated cost of restoring this land to its original condition has been recognized.

(9) Provision for loss on litigation

To cover for possible losses on lawsuits, the Company estimates the amount of losses that may emerge in the future and sets aside the amount deemed necessary.

4. Recognition of revenue and costs

Standard for cost of completed work and construction revenue

The percentage-of-completion method has been applied for the completion of a portion of the construction work is deemed to be certain by the end of the current fiscal year. (The percentage of completion is estimated based on the percentage of cost incurred compared with the estimated total cost). For other construction work, the completed-contract method has been applied.

5. Significant accounting principles

(1) Consumption tax

Consumption taxes are accounted for using the net-of-tax method.

(2) Hedging transactions

1) Hedging transactions

Gains or losses and evaluation differences related to hedging transactions accounted for at fair market value are deferred as assets or liabilities until recognized. Evaluation gains and losses on foreign exchange contracts are allocated to settlement periods throughout the period of the contract. Interest rate swaps are treated as special exceptions.

2) Hedging instruments and hedging objects

Hedging instruments Foreign exchange forward contracts, foreign currency option contracts and interest rate swap agreements were used.

Hedging objects Currency exchange rate risk and interest rate risk on existing assets and liabilities in foreign currencies are hedging objects.

3) Hedging policy

The Company hedges currency exchange rate risk on existing assets and liabilities in foreign currencies and interest-rate risk based on internal risk management policy.

4) Assessing the effectiveness of hedging

Interest risk The effectiveness of hedging is assessed by comparing the accumulated cash flows between hedging instruments and hedging objects. However, with regard to the interest rate swaps that meet the requirements for special exceptions, the assessments are omitted.

Currency exchange rate risk As long as one hedging instrument and one hedging object correspond, the hedge is considered effective.

3) Consolidated taxation system

A consolidated tax system is applied.

**Notes to the Non-consolidated Balance Sheet**

1. Accumulated depreciation of tangible fixed assets	¥111,735 million
2. Commitments and contingent liabilities	
(1) Loans guaranteed to employees	¥49 million
(2) Loans guaranteed to subsidiaries and associates	¥4,212 million
Consolidated subsidiaries	
ELLIOTT COMPANY	¥3,797 million
EBARA DENSAN LTD.	¥321 million
Total	<u>¥4,119 million</u>
Non-consolidated subsidiaries and associates	
EBARA BOMBAS COLOMBIA S.A.S.	¥74 million
EBARA PUMPS SAUDI ARABIA LLC	¥19 million
Total	<u>¥93 million</u>
3. Monetary claim and liabilities to subsidiaries and associates	
Short-term monetary claim to subsidiaries and associates	¥51,326 million
Long-term monetary claim to subsidiaries and associates	¥688 million
Short-term monetary liabilities to subsidiaries and associates	¥24,926 million

**Notes to the Non-consolidated Statement of Income**

Amount of transactions with subsidiaries and associates	
Amount of operating transactions	
Amount of sales	¥74,619 million
Amount of purchases	¥29,069 million
Amount of non-operating transactions	¥13,570 million

## Notes to the Non-consolidated Statement of Changes in Net Assets

### Treasury Shares

Type of shares	Number of shares as of January 1, 2018	Increase	Decrease	Number of shares as of December 31, 2018
Common stock	189,124	1,744,299	-	1,933,423

Note: The increase of 1,744,299 shares in treasury stock was an increase of 2,199 shares due to the purchase of shareholdings less than one trading unit and an increase of 1,742,100 shares due to repurchase shares of its common stock based on a resolution of the Board of Directors.

### Notes to Income Taxes

Significant components of the deferred tax assets and liabilities

Deferred tax assets:

Bonus payment reserve	¥688 million
Loss recognized on a percentage-of completion basis	¥516 million
Provision for retirement benefits	¥1,753 million
Tax loss carried forward	¥2,863 million
Loss on valuation of investment securities	¥64 million
Loss on valuation of subsidiaries and associates	¥1,685 million
Loss on valuation of inventories	¥1,375 million
Loss on retirement of fixed assets	¥1,012 million
Depreciation	¥686 million
Reserve for losses on construction completion guarantees	¥4,087 million
Excess allowance for doubtful accounts	¥1,150 million
Accounts payable-other	¥608 million
Provision for loss on litigation	¥2,364 million
Others	¥2,253 million
Subtotal	¥21,112 million
Valuation allowance	¥(12,973) million
Total deferred tax assets	¥8,138 million
Deferred tax liabilities:	
Net unrealized gains (losses) on investment securities	¥107 million
Others	¥1,180 million
Total deferred tax liabilities	¥1,288 million
Net deferred tax assets	¥6,850 million



## Notes to Related Parties

Transactions with related parties and subsidiaries, etc.

Attribute	Name	Investment ratio	Concern with related parties	Details of the transaction	Amount of the transaction (Millions of yen)	Accounting item	Balance (Millions of yen)
Subsidiary	Elliott Ebara Turbomachinery Corporation	Ownership Indirectly 100%	- Purchase compressors and turbines - Leasing of buildings and plants - Borrowing money - Interlocking directors (2)	Lending money (Note 3) Interest income Borrowing money (Note 3) Interest expenses	(5,438) 22 (2,391) 0	Short-term loans payable	2,391
Subsidiary	EBARA FIELD TECH. CORPORATION	Ownership Directly 100%	- Sale and after-sales service for component devices and semiconductor manufacturing equipment - Leasing of buildings and plants - Borrowing money	Sales	20,112	Notes receivable-trade Accounts receivable-trade	10,710 4,142
Subsidiary	Ebara Environmental Plant Co., Ltd.	Ownership Directly 100%	- Leasing of buildings - Borrowing money - Interlocking directors (2)	Borrowing money (Note 3) Interest expenses	(125) 23	Short-term loans payable	4,826

Business conditions and policy for decisions related to business conditions

Notes:

1. Business conditions such as price shall be decided through negotiation in reference to a price proposal by the Company based on the market price.
2. The interest rate for lending and borrowing money is decided in reference to market interest rate.
3. Lending and borrowing money are transactions using the CMS (cash management system), and the amount of the transaction shows the change from the balance at beginning of the current period.

## Notes to Per Share Data

1. Net assets per share of common stock ¥2,585.52
2. Net income per share ¥143.19

## Significant Subsequent Events

At a meeting on February 13, 2019, the Board of Directors passed a resolution to repurchase shares of its common stock, pursuant to provisions in Article 459, paragraph 1 of the Companies Act and in Article 38 of the Company's Articles of Incorporation.

1. Purpose of repurchase shares of common stock  
To improve capital efficiency
2. Details of repurchasing
  - (1) Type of stock: Common stock of Ebara Corporation
  - (2) Total number of shares: 7,000,000 shares (maximum)  
(Ratio to the total number of shares in issue excluding treasury stock: 7.00%)
  - (3) Total acquisition price of shares: ¥15,000 million (maximum)
  - (4) Period of repurchase: From February 14, 2019 to September 20, 2019

**Other Notes****(Litigations)**

- Lawsuit by YAMATO TRANSPORT CO., LTD. Claiming Compensation for Damages of Defect Liability Based on the Sales Agreement of the Land of the Former Haneda Plant  
With regard to the lawsuit against the Company filed by YAMATO TRANSPORT CO., LTD. (hereinafter referred to as “YAMATO TRANSPORT”), claiming compensation for damages demanding the payment of ¥8,505 million by alleging that slate fragments were contained in the soil of the former Haneda District’s land sold by the Company, the Tokyo High Court, on June 28, 2018, ordered the Company to pay ¥5,952 million as part of YAMATO TRANSPORT’s claim and delay damages, and while the Company filed a final appeal against the judgment as well as a petition for acceptance of the final appeal, YAMATO TRANSPORT filed a petition for acceptance of a final appeal. On January 29, 2019, the Supreme Court rejected the Company’s final appeal and also decided not to accept either of the petitions for acceptance of the final appeals by the Company and YAMATO TRANSPORT, and thus the judgment was finalized. As a result of the judgment, in the fiscal year ended December 31, 2018, others in investments and other assets, and provision for loss on litigation in long-term liabilities, which are recorded on the non-consolidated balance sheet are reversed.