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- 2) The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

## Corporate Governance Report

Last Update: June 26, 2017

EBARA CORPORATION

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The corporate governance of EBARA CORPORATION (the “Company”) is described below.

### I. Basic Views on Corporate Governance, Capital Structure, Corporate Profile, and Other Basic Information

#### 1. Basic Views Updated

The Company has established the “EBARA Way,” composed of its “Founding Spirit,” “Corporate Philosophy” and the “EBARA Group CSR Policy” as the EBARA Group’s identity and set of values to be shared across the Group. Under the EBARA Way, EBARA upholds the enhancement of corporate value through sustainable business development and sharing the results with all 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.

The EBARA Group has also established the “EBARA Corporate Governance Basic Policy,” and will endeavor to ensure the implementation of the basic policy and to further enhance its corporate governance.

→For further information about the “EBARA Way,” please see Appendix 1.

→For full disclosure on “EBARA Corporate Governance Basic Policy,” please see Appendix 7

#### Reasons for Non-compliance with the Principles of the Corporate Governance Code Updated

The EBARA Group agrees with the intent of the Corporate Governance Code, and has adopted all of the principles therein.

#### Disclosure Based on the Principles of the Corporate Governance Code

##### ◇Explanatory Notes

- “The Company,” “EBARA,” “our,” “us” or “we” ----- Ebara Corporation
- “The EBARA Group,” “the Group” or “our Group” ----- EBARA and its subsidiary and affiliated companies
- “General Principle(s),” “Principle(s)” or “Supplementary Principle(s)” ----- The General Principle(s), Principle(s) or Supplementary Principle(s) of Japan’s Corporate Governance Code

• “EBARA’s Basic Policy”	-----	EBARA Corporate Governance Basic Policy (See Appendix 7)
• “Independent Directors”	-----	The Company’s Directors who satisfy the EBARA’s Independence Standards (See Appendix 2), and are registered as independent directors with the Tokyo Stock Exchange
• “Non-executive Inside Directors”	-----	The Company’s inside Directors who do not concurrently serve as Executive Officers of the Company
• “Executive Directors”	-----	The Company’s Directors who concurrently serve as Executive Officers of the Company

#### ◇Appendices

- Appendix 1-----EBARA Group Corporate Ethics Framework
- Appendix 2-----Independence Standards of Independent Director of EBARA
- Appendix 3-----Composition of Compensation Paid to Directors and Executive Officers
- Appendix 4-----Corporate Governance Framework
- Appendix 5-----System for Ensuring Appropriate Operations and the State of Operation of the System
- Appendix 6-----Disclosure Process - Corporate information subject to regular disclosure -
- Appendix 7-----EBARA Corporate Governance Basic Policy

## 1. Management Philosophy *Principle 3-1 i)*

### ◆Corporate Philosophy

---Continuing the Spirit of the Founder---

“We contribute to society through high-quality technologies and services relating to water, air and the environment.” Since its establishment as a pump manufacturer in 1912, the EBARA Group has advanced by acquiring technological capabilities that meet society’s needs. In the fields of water, air, and the environment—and in recent years information—our business activities help address issues facing society, such as using energy optimally, mitigating climate change, and realizing a comfortable information society.

## 2. Business Strategies and Business Plan *Principle 3-1 i)*

### ◆Management Policy

---The Business Direction that Management Aspires to---

Based on its corporate philosophy, the EBARA Group regards providing industries with a series of products that consistently serve the interests of the public as the pillar of its business. This means that the Group strives to pursue continuous growth through providing industrial goods that are integral for customers to manufacture their end products, emphasizing safety, security and comfort, as well as offering service and support to maintain the most efficient functioning of the products.

The Management Policy towards year 2020 establishes the direction to be taken by the EBARA Group based on seven perspectives - Growth Objectives, Growth Strategies, Technological Development, Securing and Developing Human Resources, Addressing Environmental Issues, Relationship with Society and Strict Adherence to Corporate Governance – and is actively and steadily implementing measures aimed at the achievement of this goal by sharing this vision throughout the entire Group.

### The Vision of the Management Policy

- The Company recognizes that consolidated sales of 500 billion yen constitute the minimum level required to continuously develop and grow its businesses on a global basis.
- In addition to the organic growth of its existing business resources, the Company has positioned mergers and acquisitions of businesses of a certain scale at the center of its growth strategy.

- The Company will achieve the organic growth of its existing business resources by increasing its presence around the world and by expanding its stock-type business.
- The Company will make continuous investments in production facilities as well as investments for new product development and the improvement of existing products in order to improve its product competitiveness.

→For full disclosure on “Management Policy,” please see:

<http://www.ebara.co.jp/en/about/corporate/about/philosophy/index.html>

### ◆Medium-Term Management Plan

The EBARA Group has established “E-Plan 2019,” the Medium-Term Management Plan for the period from fiscal year 2017 to fiscal year 2019.

As a result of our previous Medium-term Management Plan (E-Plan 2016), the Environmental Plants Business and Precision Machinery Business continued to practice solid business management to the extent of exceeding their targets for sales and operating income. Meanwhile, in the Fluid Machinery and Systems Business, sales and the operating income have fallen short of the targets, due to such external factors as the postponement of orders and investment decisions by our customers resulting from a fall in crude oil prices, as well as internal factors including delays in the progress of each measures implemented by its business units.

Keeping in mind the results of E-Plan 2016, the Company hopes that by the completion of E-Plan 2019 it will have further developed as a manufacturer of industrial machinery that grows and develops its business on a global basis. To this end, the Company aims to thoroughly improve profitability in all business and designates the period covered by E-Plan 2019 as the period to engage in “unlimited challenge toward growth.”

→For full disclosure on “Medium-Term Management Plan (E-Plan 2019),” please see:

<http://www.ebara.co.jp/en/about/ir/information/management/index.html>

#### Targets to be Achieved in Fiscal Year 2019

- ROIC: 8.0% or more (Entire Group)
- Operating Income Ratio: 9.0% or more (Entire Group)
- Consolidated sales: ¥500 billion or more
- ¥60 billion to capital investments; ¥10 billion to investments and loans; and ¥35 billion to research and development
- Consolidated total payout ratio: 30% or more.

### 3. Shareholder Return Policy

The EBARA Group has positioned shareholder returns as one of our most important management policies. The shareholder return policy for the duration of E-Plan 2019 is to improve shareholder returns (dividends and share buybacks) and aim for a consolidated total payout ratio of 30% or more.

### 4. Basic Policy for Cross-Shareholdings and Standards for Voting Rights *Principle 1-4 (See Article 4 of Appendix 7)*

The Company’s basic policy is to minimize the proportion of cross-shareholdings. However, the Company may hold shares of other companies as cross-shareholdings only when it is reasonably determined that such shareholdings will lead to the development of business and/or financial relationships with investees and contribute to the enhancement of the EBARA Group’s corporate value. The rationality for such cross-shareholding relationships is subject to regular review by the Board of Directors. If it is deemed by the Board of Directors that it is no longer feasible to hold a cross-shareholding, the shareholding shall be dissolved by disposal or other means.

The Company exercises its voting rights in cross-shareholdings, determining whether to vote for or against after comprehensive consideration of whether it contributes to the medium- to long-term enhancement of the corporate value of investees and the EBARA Group.

## **5. Basic Views on Corporate Governance** *Principle 3-1 ii) (See Article 1 of Appendix 7)*

The EBARA Group's basic views on corporate governance are as follows.

- (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.
- (2) The Company strives to appropriately cooperate with various stakeholders, including customers, business partners, employees and local communities. The Company will also develop a corporate culture in which such stakeholders' rights and positions are respected and business is executed soundly.
- (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 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 engages in constructive dialogue with shareholders and investors on the basis of a separately established "IR Basic Policy," with a view to contributing to sustainable growth and the medium- to long-term enhancement of corporate value.

## **6. Responsibilities of the Board, and Policies and Procedures for Nominating Directors**

- (1) Roles of the Board and Board Balance and Size *Supplementary Principle 4.11.1 (See Article 9 of Appendix 7)*

### *(a) Roles and Responsibilities of the Board of Directors and Standards for Nominating Directors*

The Board of Directors must make its best effort to realize the mission it has been given by shareholders to "continuously improve corporate value" while giving the greatest consideration possible within reasonable extent to the positions of all stakeholders. In addition to the perspective of establishing an internal control environment for preventing downside risks of scandals, etc. (i.e., defensive leadership), the Board must also consider the perspective of establishing an environment enabling management to boldly face challenges to prevent upside risks in which business opportunities are missed (i.e., offensive leadership).

To be able to exhibit both defensive and offensive leadership, the Board of Directors must be a place enabling the best conclusion to be reached while avoiding closed discussion through the exchange of diverse opinions. To achieve this, the Board must be made up of personnel with sufficient knowledge and experience in areas important from the perspective of business management from inside and outside the Company. In addition to sufficient expert knowledge in their respective fields, Directors need to have extensive insight and ability of logical thinking enabling them to make decisions based on the opinions of other Board members with expert knowledge and information from within and outside the Company.

Furthermore, the Board of Directors must be able to clearly divide responsibilities of supervision and execution in order to be able to effectively supervise the execution of business and also be able to objectively assess and comment on the progress and results of execution of business by management from a position that is independent from the execution of business. As the organizational form to achieve this, the Company adopted "Company with Three Committees" to delegate the authority and responsibility of business execution to Executive Officers. In addition, the Company also established Nomination, Compensation and Audit Committees within the Board of Directors to form the essence of corporate governance. The number of Executive Directors has been kept to a minimum to the extent that is realistic, while effectively utilizing Independent Directors and Non-executive Inside Directors (directors who do not concurrently serve as Executive Officers of the Company).

From this perspective, consideration is given to the balance of “Independent Directors”, “Non-executive Inside Directors” and “Executive Directors” in the composition of the Board of Directors, with Independent Directors accounting for at least half of all Directors, and Independent Directors and Non-executive Inside Directors accounting for a majority of all Directors.

Furthermore, the Nomination, Compensation and Audit Committees established within the Board of Directors are made up of only Independent Directors and Non-executive Inside Directors to maintain their independence and objectivity, and a majority of each committee is made up of Independent Directors.

*(b) Composition of the Board of Directors (See Article 9, 11, 12, 13 and 17 of Appendix 7)*

To ensure the Board of Directors effectively fulfills its roles and responsibilities, the Company shall make up the Board of personnel with sufficient knowledge and experience inside and outside the Company in areas related to business management. Knowledge and experience expected to be important to the Company from the perspective of company management are defined as the areas of “legal affairs and risk management,” “personnel and human resource development,” “finance, accounting and capital policy,” “auditing,” “management of individual businesses (in the Company),” “corporate management and management strategy,” “research and development,” “the environment,” “social” and “internal control and governance.” In addition to having appropriate knowledge in all of these areas, the Company has appointed nominees for Director by specifying areas in which the Company particularly expects them to perform. In particular, the Audit Committee shall include several people with appropriate knowledge of finance and accounting. Note that these areas shall be revised as appropriate based on the external environment and the condition of the Company.

As of June 23rd, 2017, the composition of the Board of Directors comprises thirteen (13) Directors, seven (7) of whom are Independent Directors who have appropriate and diverse capabilities (for more information, see Section (4) below), and two (2) of them are females. The Company is considering the appointment of Directors of foreign nationality in the future from the standpoint of diversity.

*(2) Policies and Procedures for Election of Candidates for Directors Principle 3.1 iv (See Article 17 of Appendix 7)*

Basic policies and procedures for election of candidates for Directors to appoint directors are established by the Nomination Committee.

The Nomination Committee is responsible for deciding on the proposals concerning the election and dismissal of Directors, recommendations to the Board of Directors concerning the election and dismissal of Executive Officers, and recommendations to the Board of Directors concerning the appointment and dismissal of Directors and Executive Officers with special titles based on the management strategies of the Company, with a view to contributing to sustainable growth and the medium-to long-term enhancement of corporate value.

*(3) Succession Planning for the President and Representative Executive Officer: Supplementary Principle 4.1.3 (See Article 11 of Appendix 7)*

The Nomination Committee establishes a plan for the succession of the President and Representative Executive Officer. The plan specifies requirements for qualifications of the President and Representative Executive Officer based on the management strategies of the Company.

The Nomination Committee will select candidates from a broad age group, and will review the qualifications of each candidate and identify his or her knowledge and skills to be further developed.

*(4) Explanations with respect to Individual Appointments and Nominations Principle 3.1.v (See Article 8 of Appendix 7)*

The reasons for nominating each candidate for Director and the areas in which the Company particularly expects them to perform as part of the explanation of the corresponding proposal in page 6-7 of the Notice of the General Meeting of Shareholders.

→For full disclosure on “the Notice of the General Meeting of Shareholders,” please see:

[http://www.ebara.co.jp/en/about/ir/stock/shareholdersmeeting/\\_icsFiles/afieldfile/2017/05/30/E6361\\_152\\_1\\_1.pdf](http://www.ebara.co.jp/en/about/ir/stock/shareholdersmeeting/_icsFiles/afieldfile/2017/05/30/E6361_152_1_1.pdf)

(5) Policy and Procedures in Compensation for Directors **Principle 3.1.iii), Principle 4.2, Supplementary Principle 4.2.1 (See Article 20 of Appendix 7)**

Compensation standards for Directors and Executive Officers are designed by the Compensation Committee.

*(a) Compensation for Directors*

Compensation levels and the compensation system for Directors reflect the roles, etc. in the Board of Directors and committees, etc. to encourage and supervise the execution of operations by the Executive Officers in line with the Company’s management philosophy and strategies, for the purpose of sustained growth of the Company and the medium- to long-term enhancement of corporate value.

→Read more on Compensation for Directors, pages 23-27

*(b) Compensation for Executive Officers*

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 management philosophy and management strategies, and to provide strong motivation for the achievement of management targets, and 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.

→Read more on Compensation for Executive Officers, pages 23-27

(6) Training for Directors **Supplementary Principals 4.14.2) (See Article 18 of Appendix 7)**

The Company offers opportunities for newly elected Directors to gain knowledge of, and insight into, the subjects necessary to perform their responsibilities as Directors, including finance, legal affairs and corporate governance prior to or immediately after their election. Furthermore, in an effort to promote understanding of the Group, the Company offers opportunities as appropriate for newly elected Independent Directors to gain knowledge of, and insight into important matters such as the Group’s management strategies and financial position, through a briefing by Executive Officers, etc., in charge of respective areas, and inspection tours, etc., at the Group’s business sites prior to or immediately after their election.

In addition, the Company provides Directors with opportunities for adequate training after their election as appropriate, including lectures by external experts.

**7. Separation between Supervision and Business Execution in Management** **Supplementary Principle 4.1.1) (See Article 9 of Appendix 7)**

---Scope of Delegation to the Management---

Based on the basic views of the role of the Board of Directors and clear separation between supervision and business execution as described in 6.1(a) “Roles and Responsibilities of the Board of Directors and Standards for Nominating Directors” on page 4, the Board of Directors establishes the Board of Directors’ Rules, specifying the matters to be resolved and reported to the Board of Directors, and stipulates the scope of matters for which decision-making authority is delegated to Executive Officers.

The decision-making authority on matters concerning business execution is delegated to Executive Officers, except those categorized as the exclusive jurisdiction of the Board of Directors by laws and regulations as well as the Articles of Incorporation, including basic management policies (management philosophy, medium- to long-term management plan, and annual budget, etc.) and those that may have a significant impact on the management of the Group.

**8. Supervision by Independent Directors** **Principle 4.8) (See Article 1.2 and 9 of Appendix 7)**

---Effective Use of Independent Directors---

Based on the basic views of the role of the Board of Directors and clear separation between supervision and business execution as described in 6.1(a) “*Roles and Responsibilities of the Board of Directors and Standards for Nominating Directors*” on page 4, the Company has developed a governance system comprising mainly Independent Directors and Non-executive Inside Directors (directors who do not concurrently serve as Executive Officers of the Company).

(1) Roles of Independent Directors **(Article 16 of Appendix 7)**

Independent Directors are mainly responsible, among their principal roles, for verifying and assessing as appropriate the business results of the Company and performance of Executive Officers in light of the management strategies or management plan set out by the Board of Directors, and determining and expressing opinions on whether it is appropriate to delegate management responsibilities to the incumbent Executive Officers from the perspective of the common interests of shareholders.

(2) Ratio of Independent Directors

To appropriately and effectively fulfill the roles of Independent Directors described above, the Company believes it needs to secure a certain number or more of Independent Directors. The Company therefore has the policy that more than one-third (1/3) and at least five (5) of the Board members shall be Independent Directors.

As of June 23, 2017, the composition of the Board of Directors comprises thirteen (13) Directors, seven (7) of whom are Independent Directors, and all of them are registered as independent directors with the Tokyo Stock Exchange.

Especially for the Compensation Committee, taking into account the status of the compensation system which has been established and operated diligently, the Compensation Committee’s members are all Independent Directors to further strengthen its objectivity and transparency.

(3) Independence Standards and Qualification for Independent Directors **Principle 4.9) (See Article 17 of Appendix 7)**

Independent Directors shall be selected from those who have adequate specialized knowledge in areas important in company management and can also contribute to discussion on the essence of management from a position that is completely independent from the execution of business. The Company has established the Independence Standards of Independent Director of EBARA based on the independence standards specified by the Tokyo Stock Exchange. Only those who meet such standards shall be the Company’s Independent Directors.

→For full disclosure on “the Independence Standards of Independent Director of EBARA,” see Appendix 2

→For full disclosure on the reason of appointment for Independent Directors, see pages 14-19

(4) Independent Directors’ Meetings **Supplementary Principle 4.8.1) (See Article 14 of Appendix 7)**

To fulfill their roles and responsibilities, meetings consisting solely of Independent Directors, have been established as a venue to share sufficient information and awareness among Independent Directors from an independent and objective standpoint. The Independent Directors’ Meetings were held thirteen (13) times in fiscal year 2016.

→For further information about the Supporting System for Independent Directors, see page 27

(5) Election of Lead Independent Director **Supplementary Principle 4.8.2 (See Article 16 of Appendix 7)**

The Lead Independent Director is elected from among the Company’s Independent Directors. The Lead Independent Director serves as the Chairperson of the Independent Directors’ Meeting. In addition, the Lead Independent Director summarizes opinions of other Independent Directors as necessary, and reports to the Chairman of the Board of Directors and the President and Representative Executive Officer for further consultation.

## 9. Effectiveness of the Board of Directors

(1) Evaluation of the Effectiveness **Supplementary Principle 4.11.3) (See Article 19 of Appendix 7)**

The Company pursues the best possible corporate governance structure and strives for its further enhancement at all times. The Board of Directors itself periodically analyzes and assesses the overall effectiveness of the Board of Directors to review how the Board of Directors contributes to corporate governance functioning effectively, identify issues and make improvements. An overview of the results is then disclosed.

#### ◆ **Efforts to Resolve Issues Recognized in the Fiscal Year 2015 Evaluation of the Board of Directors**

In fiscal year 2015, the Directors' evaluation of the Company's corporate governance system and the state of operation of the Board of Directors and each committee were generally high and the Company's Board of Directors found that the effectiveness of the Board was sufficiently ensured. However, it was also recognized that there is a need to deepen the discussion concerning medium- to long-term issues and relationships with investors and shareholders and that there is room for improvement in the proceedings of meetings.

##### *(a) Enhancement of discussion of medium-to long-term issues and the communication of information to capital markets.*

In order to enable the Board of Directors to provide sufficient time for discussion on medium-to long-term issues, general direction of the Group and other major risks including issues recognized in the fiscal year 2015 Evaluation of the Board of Directors, the Board's schedule was rearranged. When formulating the new Medium-Term Management Plan, the Board of Directors had three (3) meetings to finalize it and sufficient time was spent on deeper discussion.

##### *(b) Improvement in the proceedings of meetings*

In addition to the efforts above, the Board agenda items and proceedings of meetings were reviewed to ensure effective oversight by the Board of Directors.

#### ◆ **Fiscal Year 2016 Evaluation of the Board of Directors**

##### **Analysis and evaluation process**

With the cooperation of a third-party organization, the Company prepared a questionnaire for each Director, conducted analysis of the responses, and then implemented individual interviews with all of the Directors to confirm the thoughts of each Director based on their responses to the questionnaire, and analyzed the results of the questionnaire and individual interviews.

Furthermore, the state of improvements made to issues identified in the benchmark analysis performed during the previous fiscal year was confirmed based on disclosure reports as of March 2017. The Board of Directors discussed the effectiveness of the Board of Directors in the Board Meetings held in May and June 2017 based on the report from the third-party organization on the above analysis, and confirmed the evaluation and future action to be taken.

##### **Summary of the results of analysis and evaluation**

As a result of the above analysis, it was found that Directors' evaluations of the composition and status of operation of the Company's Board of Directors and Committees were generally high, indicating that they are being operated appropriately. In particular, it was confirmed that sufficient time was spent on medium- to long-term issues to conduct deeper discussion when formulating the new Medium-Term Management Plan, that progress has been made in improvements addressing issues recognized in the previous fiscal year's evaluation (enhancement of discussion of medium- to long-term issues and the communication of information to capital markets, and improvement of the efficiency of proceedings in meetings of the Board of Directors) and that Independent Directors have a high level of contribution to discussions. Based on the above information the Board of Directors' evaluation concluded that the Board of Directors is fully exercising its oversight functions, and that greater effectiveness has been provided.

However, it was recognized that further discussion and deeper understanding concerning long-term issues contributing to the improvement of corporate value are required, and that important elements related to the effectiveness of the oversight function of the Board of Directors need to be periodically reviewed to ensure the size and composition of the Board of Directors is right for the Company in response to changes in the Company's business and the management environment.



### **Action to be taken**

Through the above discussion, the Company's Board of Directors re-affirmed that it will further increase the effectiveness of the Board of Directors by continuously engaging in the following actions.

- Enhancement of identification and discussion of long-term issues contributing to the improvement of corporate value
- Periodic reviews of the size and composition of the Board of Directors
- Enhancement of discussion on succession planning in the Nomination Committee
- Ongoing monitoring of the state of progress of the new Medium-Term Management Plan (E-Plan 2019)

→For full disclosure on “Overview of the results of the fiscal year 2016 Evaluation of the Company's Board of Directors,” please see:

[https://www.ebara.co.jp/en/about/ir/library/corporategovernance/\\_\\_icsFiles/afieldfile/2017/06/27/board\\_evaluation\\_FY2016\\_en.pdf](https://www.ebara.co.jp/en/about/ir/library/corporategovernance/__icsFiles/afieldfile/2017/06/27/board_evaluation_FY2016_en.pdf)

### **(2) Concurrent Positions of Independent Directors *Principals 4.11.2) (See Article 17 of Appendix 7)***

The Company's Basic Policy has provided that if an Independent Director of the Company is to concurrently serve as a director or a statutory auditor of other listed companies, such service shall not be demanding to the extent that it may impede the roles and functions expected of an Independent Director of the Company.

### **10. Related Party Transactions *Principle 1.7) (See Article 5 of Appendix 7)***

The Company's Basic Policy has provided that the Company's Directors and Executive Officers shall obtain prior approval of the Board of Directors when they are to “carry out transactions that belong to the line of business of the Company (competitive transactions) for themselves or for a third party” or “carry out transactions with the Company, or transactions that involve conflicts of interest between themselves and the Company (transactions involving conflicts of interest), including transactions between the Company and a third party for which they receive a commission, etc.”

### **11. Risk Management *Supplementary Principle 4.3.2)***

#### **(1) Risk Management**

In order to mitigate all risks that could hinder the sound and continuous development of the EBARA Group, we will develop risk management system that places priority on foreseeing and preventing risks.

The Risk Management Panel (hereinafter referred to as “RMP”) is in place as a body responsible for coordinating risk management activities, while carrying out deliberation, guidance for improvement and support.

In addition, Non-executive Inside Directors attend the panel 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.

→For more detailed information on the RMP, see page 30

#### **(2) Compliance**

Our fundamental compliance policy is to conduct business activities in accordance with our CSR Policy which states that we conduct business with a strong sense of ethics and foster relationships of trust with our valued stakeholders (including customers, suppliers, shareholders, investors, local communities and employees).

The CSR Committee determines the policy of CSR activities and monitors the status of compliance, as well as the status of the maintenance and operation of internal controls at the Company and its subsidiaries

in accordance with the EBARA Group CSR Policy and the EBARA Group Code of Conduct. It also gives instructions for improvement as appropriate based on the results of internal audits.

In addition, Independent Directors and Non-executive Inside Directors are encouraged to attend meetings of the committee to exhibit supervisory functions contributing to the objectives of the CSR Committee, and providing advice and the like as necessary. The CSR Committee 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.

→For more detailed information on the CSR Committee, see page 30

## 12. Dialogue with Shareholders and Investors **Principles 5.1) (See Article 21 of Appendix 7)**

The Company recognizes the development of a long-term trusting relationship with shareholders and investors as one of the most important management matters. The Company provides appropriate corporate information necessary for shareholders and investors to make investment decisions, and strives to further strengthen the trusting relationship on a continuous basis by engaging in IR activities for enhancing its corporate value through constructive dialogue.

In the current framework, IR activities of the Company are, in principle, carried out by the department in charge of IR under the direct supervision of the President and Representative Executive Officer.

In addition, Directors (including Independent Directors), Executive Officers and other senior executives arrange, as appropriate, opportunities for direct dialogue with shareholders and investors. The Company develops a framework for internally sharing information and knowledge gained through such dialogue with shareholders and investors, which shall be utilized for the management of the Company.

The Company separately determines and discloses the “IR Basic Policy” as a basic policy for developing the structure and initiatives for promoting constructive dialogue with shareholders and investors.

→For more detailed information on IR activities, see pages 32-33

→For full disclosure on “IR Basic Policy,” please see:

[https://www.ebara.co.jp/en/about/ir/information/ir\\_basic\\_policy/index.html](https://www.ebara.co.jp/en/about/ir/information/ir_basic_policy/index.html)

## 2. Capital Structure

Percentage of Foreign Shareholders	More than 30%
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### Status of Major Shareholders **Updated**

Name / Company Name	Number of Shares Owned	Percentage (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	10,021,600	9.85
The Master Trust Bank of Japan, Ltd. (Trust Account)	9,627,900	9.46
ICHIGO TRUST PTE. LTD. (Standing proxy: The Hongkong and Shanghai Banking Corporation Limited, Tokyo branch, Custody Department)	7,170,600	7.05
THE BANK OF NEW YORK 133522 (Standing proxy: Mizuho Bank Ltd., Settlement & Clearing Services Division)	2,336,209	2.30
Mizuho Bank, Ltd.	2,000,174	1.97
National Mutual Insurance Federation of Agricultural Cooperatives	1,874,700	1.84
Japan Trustee Services Bank, Ltd. (Trust Account 5)	1,740,800	1.71

Name / Company Name	Number of Shares Owned	Percentage (%)
GOLDMAN, SACHS & CO. REG (Standing proxy: Goldman Sachs Japan Co. Ltd.)	1,740,373	1.71
Trust & Custody Services Bank, Ltd. (Securities Investment Trust Account)	1,536,700	1.51
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,425,513	1.40

Controlling Shareholder (Except for Parent Company)	—
Parent Company	No

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Supplementary Explanation **Updated**

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- 1) Capital structure indicated here reflects the status as of March 31, 2017.
- 2) In a change report pertaining to a report of possession of large volume, available for public inspection as of December 22, 2016, it is stated that Mizuho Bank, Ltd. and its two joint holders collectively held 8,112,731 shares (equivalent to a 8.21% holding ratio of share certificates, etc.) as of December 15, 2016. However, the Company could not verify the number of shares substantially held by the aforementioned parties as of the end of the fiscal year ended March 31, 2017, except for the 2,000,174 shares held by Mizuho Bank, Ltd. Thus, they are not included in the aforementioned status of major shareholders.
- 3) In a change report pertaining to a report of possession of large volume, available for public inspection as of December 19, 2016, it is stated that The Bank of Tokyo-Mitsubishi UFJ, Ltd. and its three joint holders collectively held 6,409,735 shares (equivalent to a 6.88% holding ratio of share certificates, etc.) as of December 12, 2016. However, the Company could not verify the number of shares substantially held by the aforementioned parties as of the end of the fiscal year ended March 31, 2017, except for the 1,425,513 shares held by The Bank of Tokyo-Mitsubishi UFJ, Ltd. Thus, they are not included in the aforementioned status of major shareholders.
- 4) In a change report pertaining to a report of possession of large volume, available for public inspection as of December 21, 2016, it is stated that Nomura Securities Co., Ltd. and its two joint holders collectively held 7,731,344 shares (equivalent to an 8.29% holding ratio of share certificates, etc.) as of December 15, 2016. However, the Company could not verify the number of shares substantially held by the aforementioned parties as of the end of the fiscal year ended March 31, 2017. Thus, they are not included in the aforementioned status of major shareholders.
- 5) In a change report pertaining to a report of possession of large volume, available for public inspection as of March 22, 2017, it is stated that Sumitomo Mitsui Trust Bank, Limited and its two joint holders collectively held 7,489,700 shares (equivalent to an 7.36% holding ratio of share certificates, etc.) as of March 15, 2017. However, the Company could not verify the number of shares substantially held by the aforementioned parties as of the end of the fiscal year ended March 31, 2017. Thus, they are not included in the aforementioned status of major shareholders.

### 3. Corporate Profile

Listed Stock Market and Market Section	Tokyo Stock Exchange First Section
Fiscal Year-end <b>Updated</b>	December
Type of Business	Machinery
Number of Employees (Consolidated) as of the End of the Previous Fiscal Year	1,000 or more
Sales (Consolidated) as of the End of the Previous Fiscal Year	¥100 billion to less than ¥1 trillion
Number of Consolidated Subsidiaries as of the End of the Previous Fiscal Year	50 to less than 100

### 4. Policy on Measures to Protect Minority Shareholders in Conducting Transactions with Controlling Shareholders

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### 5. Other Special Circumstances Which May Have Material Impact on Corporate Governance

The Company does not have a parent company or listed subsidiaries; thus, there are no matters to report under this item.

## II. Business Management Organization and Other Corporate Governance Systems Regarding Decision Making, Execution of Business, and Oversight in Management

### 1. Organizational Composition and Operation

Structure of Organization	Company with Three Committees (Nomination, Compensation and Audit)
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#### Directors

Maximum Number of Directors Stipulated in Articles of Incorporation	15
Term of Office Stipulated in Articles of Incorporation	1 year
Chairman of the Board	Chairman (excluding the case where the Chairman concurrently holds the position of President)
Number of Directors <span style="background-color: yellow;">Updated</span>	13

#### Outside Directors

Number of Outside Directors	7
Number of Independent Directors	7

#### Outside Directors' Relationship with the Company (1)

Name	Attributes	Relationship with the Company*										
		a	b	c	d	e	f	g	h	i	j	k
Sakon Uda	From Other Company								△			
Masao Namiki	From Other Company								△			
Shiro Kuniya	Attorney											
Nobuko Matsubara	Other								△			
Hajime Sawabe	From Other Company								△			
Shozo Yamazaki	CPA								△			
Izumi Sato	Attorney								△			

\* Categories for "Relationship with the Company":

“○” When the director currently falls or has recently fallen under the category

“△” When the director fell under the category in the past

“●” When a close relative of the director currently falls or has recently fallen under the category

“▲” When a close relative of the director fell under the category in the past

a. Executive of the Company or its subsidiaries

b. Non-executive director or executive of a parent company of the Company

c. Executive of a fellow subsidiary company of the Company

d. A party whose major client or supplier is the Company or an executive thereof

e. Major client or supplier of the Company or an executive thereof

f. Consultant, accountant, or legal professional who receives a large amount of monetary consideration or other property from the Company other than compensation as a director/audit & supervisory board member

g. Major shareholder of the Company (or an executive of said major shareholder if the shareholder is a legal entity)

h. Executive of a client or supplier company of the Company (which does not correspond to any of d, e, or f) (the director himself/herself only)

- i. Executive of a company, between which and the Company outside directors/audit & supervisory board members are mutually appointed (the director himself/herself only)
- j. Executive of a company or an organization that receives a donation from the Company (the director himself/herself only)
- k. Others

## Outside Directors' Relationship with the Company (2) Updated

Name	Committees			Independent Director	Supplementary Explanation of the Relationship with the Company	Reasons for Appointment
	Nomination Committee	Compensation Committee	Audit Committee			
Sakon Uda	○	○		○	<p>Outside Director Sakon Uda falls under the “h” relationship category with the Company because he had engaged in the execution of business as Senior Managing Executive Officer of Japan Post Holdings Co., Ltd. (“JPH”), until he retired from that post in June 2008. Although the Group had business transactions including the sale of products and after-sale service with JPH, the amount of these transactions was less than ¥50 million per year, or an amount that accounted for less than 0.1% of the consolidated net sales of the Company for the year ended March 31, 2017. He was also involved in the execution of business at Japan Post Service Co., Ltd. (currently Japan Post Co., Ltd.; “JP”), but he retired from JP in June 2010. Although the Group had business transactions including the handling of mail, etc. with JP, the amount of payments by the Group to JP was less than ¥25 million per year, or an amount that accounted for less than 0.1% of the consolidated operating revenue of JP for the year ended March 31, 2017.</p>	<p>Sakon Uda has been involved in numerous companies as an expert in management strategy, etc., and as a company manager, and provides advice on management strategy and improvement of operations, etc. He actively comments from the perspective of general management in important meetings such as those of the Board of Directors as an outside director of the Company, in addition to endeavoring to lead the Independent Directors' Meeting as the lead Independent Director and improve the quality of discussion in meetings of the Board of Directors. Furthermore, as a chairperson of the Nomination Committee, he assumes leadership of the activities of the Nomination Committee, such as the selection of nominees for director. We asked for him to be a nominee for outside director to continue reflecting his broad knowledge and high level of perception in the supervision of management, particularly in the areas of “personnel and human resource development,” and “corporate management and management strategy.”</p> <p>Attribute information on his eligibility as an independent director and outside director is as shown on the left, and as we</p>

Name	Committees			Independent Director	Supplementary Explanation of the Relationship with the Company	Reasons for Appointment
	Nomination Committee	Compensation Committee	Audit Committee			
						determined that there were no special conflicts of interest with general shareholders, we have reported him as an independent officer.
Masao Namiki			○	○	<p>Outside Director Masao Namiki falls under the “h” relationship category with the Company because he had engaged in the execution of business at TOSHIBA CORPORATION (“Toshiba”) until he assumed office as Senior Advisor to Toshiba in June 2011. He retired from Toshiba in June 2014. Although the Group had business transactions including the sale of products and after-sale service with Toshiba, the amount of these transactions was less than ¥5.0 billion per year, or an amount that accounted for less than 1% of the consolidated net sales of the Company for the year ended March 31, 2017. The Group also has purchased products, etc. from Toshiba, but the amount of payments by the Group to Toshiba was less than ¥1.5 billion per year, or an amount that accounted for less than 0.1% of the consolidated net sales of Toshiba for the year ended March 31, 2017.</p>	<p>Masao Namiki has been involved in the management of a major listed company in Japan for many years, and has abundant experience in general corporate management. He also has intimate knowledge of management of the Company based on his management experience in a leading manufacturer, and actively comments in important meetings such as those of the Board of Directors. Furthermore, as an Audit Committee Member, he conducts a wide range of audits of the businesses of the Company and the Group, and contributes to the activities of the Audit Committee. We asked for him to be a nominee for outside director to continue reflecting his abundant experience and high level of perception in the supervision of management, particularly in the areas of “finance, accounting and capital policy,” “corporate management and management strategy” and “research and development.”</p> <p>Attribute information on his eligibility as an independent director and outside director is as shown on the left, and as we determined that there were no special conflicts of interest with general shareholders, we have reported him as an independent officer.</p>
Shiro Kuniya		○		○	He does not fall under any of these relationship categories.	Shiro Kuniya is an attorney specializing in corporate law, international transactions and

Name	Committees			Independent Director	Supplementary Explanation of the Relationship with the Company	Reasons for Appointment
	Nomination Committee	Compensation Committee	Audit Committee			
						<p>intellectual property, and has actively commented in important meetings such as those of the Board of Directors from a legal perspective. As a chairperson of the Compensation Committee, he provides leadership in the activities of the Compensation Committee, such as the determination of the compensation of directors and executive officers with broad horizons including a global perspective. We asked for him to be a nominee for outside director to continue reflecting his specialized knowledge and high level of perception in the supervision of management, particularly in the areas of “legal affairs and risk management” and “auditing.”</p> <p>Attribute information on his eligibility as an independent director and outside director is as shown on the left, and as we determined that there were no special conflicts of interest with general shareholders, we have reported him as an independent officer.</p>
Nobuko Matsubara	○			○	<p>Outside Director Nobuko Matsubara falls under the “h” relationship category with the Company because she had engaged in the execution of business at Japan Institute for Women’s Empowerment &amp; Diversity Management (“JIWE”) until she assumed office as Honorary Chairman of JIWE in July 2012. Although the Group had transactions in relation to training on diversity with JIWE, the amount of payments by the Group to JIWE was less than ¥10</p>	<p>Nobuko Matsubara is a leader in promotion of participation by women who was involved in the formulation of the Equal Employment Opportunity Act for Men and Women as the first female vice-minister, and is also well versed in all labor matters. She actively comments on general management matters centered on diversity and the development of human resources in important meetings such as those of the Board of Directors. Furthermore, in the selection of nominees for</p>



Name	Committees			Independent Director	Supplementary Explanation of the Relationship with the Company	Reasons for Appointment
	Nomination Committee	Compensation Committee	Audit Committee			
					million per year, or an amount that accounted for less than 2% of the ordinary revenue forecast of JIWE for the year ended March 31, 2017	<p>officers, she contributes to the activities of the Nomination Committee as a member of the Nomination Committee with her expertise. We asked for her to be a nominee for outside director as we determined that she will continue reflecting her specialized knowledge and high level of perception in the supervision of management, particularly in the area of “personnel and human resource development.”</p> <p>Attribute information on her eligibility as an independent director and outside director is as shown on the left, and as we determined that there were no special conflicts of interest with general shareholders, we have reported her as an independent officer.</p>
Hajime Sawabe		○		○	<p>Outside Director Hajime Sawabe falls under the “h” relationship category with the Company because he had engaged in the execution of business at TDK Corporation (“TDK”) until he assumed office as Executive Advisor to TDK in June 2012. Although the Group had business transactions including the sale of products and after-sale service with TDK, the amount of these transactions was less than ¥100 million per year, or an amount that accounted for less than 0.1% of the consolidated net sales of the Company for the year ended March 31, 2017. The Group also has purchased precision machinery parts from TDK, but the amount of payments by the Group to TDK was less than ¥500 million per year, or an amount that accounted for less than 0.1%</p>	<p>Hajime Sawabe has been involved in the management of a major listed company in Japan for many years, and has abundant experience in general corporate management, in addition to being well versed in corporate planning, etc. Besides, he has abundant experience as an outside officer in listed companies and has a broad range of knowledge in a variety of industries, and also actively comments in important meetings such as those of the Board of Directors. Furthermore, based on such knowledge, he makes contributions in the consideration of the Company’s compensation system and the activities of the Compensation Committee related to decisions on the compensation of directors and executive officers as a member of the Compensation Committee. We asked for him to</p>

Name	Committees			Independent Director	Supplementary Explanation of the Relationship with the Company	Reasons for Appointment
	Nomination Committee	Compensation Committee	Audit Committee			
					<p>of the consolidated net sales of TDK for the year ended March 31, 2017.</p>	<p>be a nominee for outside director to continue reflecting his abundant experience and high level of perception in the supervision of management, particularly in the areas of “personnel and human resource development,” “finance, accounting and capital policy” and “corporate management and management strategy.”</p> <p>Attribute information on his eligibility as an independent director and outside director is as shown on the left, and as we determined that there were no special conflicts of interest with general shareholders, we have reported him as an independent officer.</p>
Shozo Yamazaki			○	○	<p>Outside Director Shozo Yamazaki falls under the “h” relationship category with the Company because he had engaged in accounting audits, etc., as a certified public accountant at Deloitte Touche Tohmatsu LLC (“Tohmatsu”) until he retired from Tohmatsu in June 2010. Tohmatsu is not the Independent Auditor of the Company. Although the Company and Tohmatsu had transactions including participation in seminars held by Tohmatsu and the purchase of magazines, the amount of payments by the Group to Tohmatsu was less than ¥500,000 per year, or an amount that accounted for less than 0.1% of the consolidated operating revenue of Tohmatsu for the year ended September 30, 2016.</p>	<p>Shozo Yamazaki has abundant knowledge of accounting as a certified public accountant. He also has international awareness such as having experience working in an overseas office and being involved in compliance with International Financial Reporting Standards (IFRS). In addition to actively commenting in important meetings such as those of the Board of Directors, he conducts a broad range of auditing activities from the specialized perspective of a certified public accountant in his capacity as a member of the Audit Committee. We asked for him to be a nominee for outside director as we determined that he will continue reflecting his specialized knowledge and high level of perception in the supervision of management, particularly in the areas of “finance, accounting and</p>

Name	Committees			Independent Director	Supplementary Explanation of the Relationship with the Company	Reasons for Appointment
	Nomination Committee	Compensation Committee	Audit Committee			
						capital policy” and “auditing.” Attribute information on his eligibility as an independent director and outside director is as shown on the left, and as we determined that there were no special conflicts of interest with general shareholders, we have reported him as an independent officer.
Izumi Sato			○	○	Outside Director Izumi Sato falls under the “h” relationship category with the Company because she established Izumi Sato Law Office and has since engaged in the execution of its business operations. Said office is not under an advisory contract with the Group. Although the Group had business transactions with said office, such as receiving advice on environmental management, in fiscal year 2013, the amount of payments by the Group to said office was less than ¥100,000 per year, or an amount that accounted for less than 0.1% of the net sales of said office for the year ended December 31, 2013. The Company has had no business transactions with said office since fiscal year 2014.	Izumi Sato is an attorney specializing in environmental issues, and also has abundant knowledge in areas such as environmental management and CSR. In addition to actively commenting in important meetings such as those of the Board of Directors mainly from the perspective of CSR including consideration for the environment and ties to society, she conducts a broad range of auditing activities from the specialized perspective of an attorney-at-law in her capacity as a member of the Audit Committee. We asked for her to be a nominee for outside director as we determined that she will continue reflecting her specialized knowledge and high level of perception in the supervision of management, particularly in the areas of “legal affairs and risk management” and “the environment.” Attribute information on her eligibility as an independent director and outside director is as shown on the left, and as we determined that there were no special conflicts of interest with general shareholders, we have reported her as an independent officer.

## Committees

Committee's Composition and Attributes of Chairperson **Updated**

	All Committee Members	Full-time Members	Inside Directors	Outside Directors	Chairperson
Nomination Committee	3	0	1	2	Outside Director
Compensation Committee	3	0	0	3	Outside Director
Audit Committee	5	2	2	3	Inside Director

## Executive Officers

Number of Executive Officers **Updated** 12

Status of Additional Duties **Updated**

Name	Representative Authority	Additional Duties as Director			Additional Duties as Employee
			Nomination Committee Member	Compensation Committee Member	
Toichi Maeda	Yes	Yes	No	No	No
Manabu Tsujimura	No	Yes	No	No	No
Atsuo Ohi	No	Yes	No	No	No
Nobuharu Noji	No	No	No	No	No
Norio Kimura	No	No	No	No	No
Masao Asami	No	No	No	No	No
Akira Ichihara	No	No	No	No	No
Hisashi Iijima	No	No	No	No	No
Akihiko Nagamine	No	No	No	No	No
Toshihiko Miyashita	No	No	No	No	No
Seiji Katsuoka	No	No	No	No	No
Akihiro Kida	No	No	No	No	No

## Auditing Structure

Appointment of Directors and/or Staff to Support the Audit Committee	Appointed
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### Matters Related to the Independence of Such Directors and/or Staff from Executive Officers

The Audit Committee has established the following in the “Audit Committee Audit Standards” and “Basic Policy on Internal Controls” and implements these to ensure the independence of persons who assist the duties of the Audit Committee (hereinafter referred to as “Assistants to the Audit Committee”).

- (1) Assistants to the Audit Committee shall not concurrently engage in any work involved in the execution of duties by Executive Officers of the Company, thereby ensuring the independence of Assistants to the Audit Committee from Executive Officers.
- (2) Assistants to the Audit Committee shall act under the instruction of the Audit Committee, thereby ensuring the effectiveness of instructions of the Audit Committee.
- (3) The personnel transfer and evaluation of Assistants to the Audit Committee shall be determined with the consent of the Audit Committee.

→For full disclosure on “Basic Policy for Internal Controls and Overview of Operation,” see Appendix 5.

### Cooperation Among Audit Committee, Independent Auditors, and Internal Audit Division Updated

The Audit Committee is engaged in coordination with the Independent Auditor and the Corporate Audit Department as follows to ensure its audits are conducted effectively and efficiently based on the Audit Committee Rules, Audit Committee Audit Standards and Basic Policy on Internal Controls .

#### 1. Coordination with the Independent Auditor

The Audit Committee coordinates with the Independent Auditor and receives reports as appropriate on the status and results of audits thereby. Furthermore, the Audit Committee conducts efficient audits by holding meetings with the Independent Auditor regularly and as needed for the mutual exchange of information and opinions.

#### ◆ Policies regarding the dismissal or refusal of reappointment of the Independent Auditor

- (1) 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.
- (2) 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 whether or not to reappoint the Independent Auditor conducted each fiscal year, the Audit Committee shall propose the refusal of reappointment of the Independent Auditor to the General Meeting of Shareholders.
- (3) Restriction on reappointment  
In the event that 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.

## 2. Coordination with the section responsible for internal audits

In addition to coordinating with the Corporate Audit Department, which is the section responsible for internal audits, the Audit Committee coordinates with divisions responsible for internal control and compliance (hereinafter referred to as “internal control divisions”) as follows.

- (1) Implementation of mutual exchange of information and opinions on a regular basis and as needed.
- (2) Attendance of General Managers of the Corporate Audit Department and internal control divisions at meetings between the Audit Committee and the President and Representative Executive Officer.
- (3) Attendance of Full-time Audit Committee members and General Managers of the Corporate Audit Department and internal control divisions at Group Auditor Conferences.
- (4) Audit Committee members observing internal audits conducted by the Corporate Audit Department, as necessary.

## Independent Directors

Number of Independent Directors	7
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### Matters Relating to Independent Directors

The Company has established its own independence standards for selection of candidates for Independent Director based on the independence standards specified by the Tokyo Stock Exchange.

→For full disclosure on “the Independence Standards of Independent Director of EBARA, see Appendix 2

## Incentives

Incentive Policies for Directors and/or Executive Officers	Performance-linked Compensation and Stock Options
------------------------------------------------------------	---------------------------------------------------

### Supplementary Explanation **Updated**

- Targets for compensation of Executive Officers are set not only for business performance but also for special tasks assigned to each person, and the degree to which such targets are achieved is reflected in performance evaluations.
- Following the introduction of share-based payment involving stock options, the Directors’ retirement benefits system was abolished.
- The Compensation Committee determines the policy regarding the determination of individual compensation for Directors and Executive Officers, and determines matters such as the amount of compensation paid to each Director and Executive Officer.

Recipients of Stock Options [Updated]	Inside Directors, Outside Directors, Executive Officers, Subsidiaries’ Directors and Other
---------------------------------------	--------------------------------------------------------------------------------------------

### Supplementary Explanation **Updated**

- The Company has introduced share-based payment involving stock options for the Company’s Directors, Executive Officers and certain Directors, etc., of the Company’s subsidiaries to provide incentives strongly linked to management targets based on medium- to long-term perspectives and to align their interests with those of the shareholders.
- The Company has also established “Share Holding Guidelines” encouraging the holding of a given number of the Company’s shares in accordance with the position of each individual.

## Compensation for Directors and Executive Officers

Disclosure of Individual Directors' Compensation	No Individual Disclosure
Disclosure of Individual Executive Officers' Compensation	No Individual Disclosure

### Supplementary Explanation **Updated**

In fiscal year 2016, total amount of compensation by position and type of compensation, as well as the number of recipients

(Millions of yen)

	Number of Persons	Base pay *3	Stock options *4	Bonus *5	Total Amount of Compensation, etc.
Non-executive Inside Directors	4	152	91	—	244
Independent Directors	7	92	8	—	100
Executive Officers *1	15	313 *2	156	150 *2	620
Total	26	557	257	150	965

#### Notes:

1. Compensation paid to Executive Directors (who are Executive Officers concurrently serving as Directors) is shown in the column for Executive Officers.
2. The base pay (limited to performance-linked portion) of Non-executive Inside Directors and bonuses of Executive Officers are calculated based on the performance of the EBARA Group, the performance of the relevant division and an evaluation of the individual's performance in the fiscal year under review, and amounts are determined individually after deliberation in the Compensation Committee.
3. Base pay shown is the total amount of base pay paid to Directors and Executive Officers in office as of March 31, 2017 according to the term of office of each Director and Executive Officer for the fiscal year ended March 31, 2017, and base pay paid to the two Executive Officers who retired at the conclusion of the meeting of the Board of Directors held on June 24, 2016 according to their terms of office during the fiscal year ended March 31, 2017.
4. Stock options shown is the total amount of stock options granted to Directors and Executive Officers in office as of March 31, 2017 according to the term of office of each Director and Executive Officer for the fiscal year ended March 31, 2017, and stock options granted to the two Executive Officers who retired at the conclusion of the meeting of the Board of Directors held on June 24, 2016 according to their terms of office during the fiscal year ended March 31, 2017. Stock options are calculated at the fair value of subscription rights to shares, and shown as the amount to be recorded as an expense in the fiscal year under review.
5. Bonuses shown are the total amount of bonuses to be paid to Executive Officers in office as of March 31, 2017 (to be paid in July 2017) for the fiscal year ended March 31, 2017.

Policy on Determining Compensation	Established
Amounts and Calculation Methods <b>Updated</b>	

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## Disclosure of Policy on Determining Compensation Amounts and Calculation Methods

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### 1. Procedures regarding the determination of compensation, etc.

#### (1) Task and roles of the Compensation Committee

The compensation, etc., of Directors and Executive Officers are determined by the Compensation Committee. The primary task of the Compensation Committee is to supervise the compensation systems for Directors, Executive Officers and other 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 policy of the Company, and also deliberates not only compensation for the Company's Directors and Executive Officers but also the compensation systems for officers of Group companies, and provides its opinions to the Board of Directors. To engage in such activities, the Committee holds regular meetings, as well as extraordinary meetings as the need arises.

#### (2) Composition and selection standards of the Compensation Committee members

All three (3) members of the Compensation Committee are Independent Directors with a further emphasis on an objective viewpoint and transparency. The current Compensation Committee members are an expert on international legal affairs, an expert on management strategy, and an individual with management experience in terms of managers' compensation, who were selected from among the Independent Directors.

#### (3) Communications with the committee members and their relationships with management

Explanations are given to newly appointed Compensation Committee members on the relevant rules stipulated by the Compensation Committee (Basic Policy on Officers' Compensation), in addition to the business performance of the Company and the background and history of the Company's compensation systems. Furthermore, a permanent committee secretariat is established to provide incumbent members with necessary information such as applicable laws, regulations, controls and standards, and to support appropriate operation of the Committee.

The results of deliberations by the Compensation Committee are reported to the Board of Directors by the Committee chairperson.

#### (4) Use of external experts

The Compensation Committee may ask for the external views of specialists such as compensation consultants with the consensus of its members, if it is deemed necessary for the activities of the Committee. When selecting such consultants, their independence is considered and confirmed.

### 2. Policy regarding the determination of compensation, etc.

#### (1) Basic policy on compensation, etc.

##### (I) Compensation for Directors

##### (a) Purpose of and basic policy on the compensation system

Compensation levels and the compensation system for Directors reflect the roles, etc. in the Board of Directors and committees, etc. to encourage and supervise the execution of operations by the Executive Officers in line with the Company's management philosophy and strategies, for the purpose of sustained growth of the Company and the medium- to long-term enhancement of corporate value.



*(b) Compensation system*

Compensation for Directors consists of basic compensation and share-based payment involving stock options enabling the evaluation of the medium- to long-term enhancement of corporate value, and is determined by the Compensation Committee.

Furthermore, an additional allowance is paid to the Chairman of the Board of Directors, the Lead Independent Director and the Chairperson of each committee, in consideration of the scope of their roles and responsibilities, as well as the additional working hours required for executing their duties.

(i) Compensation system for Independent Directors

The compensation for Independent Directors, who account for more than half of the Directors and are expected to fulfill their roles and responsibilities completely independent of the business execution of the Company, comprises basic compensation and share-based payment involving stock options that are not linked to performance.

(ii) Non-executive Inside Directors

The Non-executive Inside Directors are appointed from among the officers and employees of the Company, who are capable of actively collecting information on the internal status of the Company based on their experience and knowledge. They are expected to engage in the monitoring of the business execution essential for the Board of Directors to fulfill its supervisory function, while appropriately supervising the execution of important matters based on their own insights, and thereby providing advice as part of such supervision to ensure lawful and efficient business execution to the extent that they do not take part in decision-making.

In light of the impact of the quality of supervision of business execution based on these roles and responsibilities on the yearly business results, their compensation comprises basic compensation and share-based payment involving stock options that are partially linked to performance.

(iii) 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 different types of compensation*

The combination of different types of compensation for Directors (basic compensation, annual bonus and long-term incentives) shall be as follows. Regarding the compensation for Non-executive Inside Directors, 20% of the basic compensation and 12.5% of the long-term incentives shall be performance-linked compensation, and other compensation shall not be linked to performance.

[Ratio of Compensation of Director]

	Base pay	Annual bonus	Long-term incentives
Independent Directors	1.0	0.0	0.1
Non-executive Inside Directors	1.0	0.0	0.4

Note: The above figures show the ratio of compensation of Director, not the amount actually paid to each Director.

→For detail information on composition of compensation paid to Directors, see Appendix 3

**(II) Compensation for Executive Officers**

*(a) Purpose of and basic policy on 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 title, such as President and Representative Executive Officer or Senior Managing Executive Officer, a performance-linked annual bonus, and share-based compensation using stock options that are conditional on the achievement of performance targets set out in the medium-term management plan, 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 make the performance-linked portion larger than the portion of the basic compensation if performance targets are achieved.

(c) *Combination of different types of compensation*

Long-term incentives are stock options conditional upon the achievement of the performance targets, and compensation for Executive Officers in higher positions with greater responsibility for performance, is linked to performance to a greater degree.

[Ratio of Compensation of Executive Officers]

	Base pay	Annual bonus	Long-term incentives
President and Representative Executive Officer	1.0	0.6	0.6
Senior Managing Executive Officers	1.0	0.6	0.5
The other members of Executive Officers	1.0	0.6	0.4

Note: The above figures show the ratio of compensation of Executive Officers, not the amount actually paid to each Executive Officer.

→For detail information on composition of compensation paid to Executive Officer, see Appendix 3

(2) 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 “Peers”). The compensation levels of domestic Peers’ shall be regularly checked and, at the same time, compensation levels including disparity among different positions shall be adjusted and determined with attention also given to employees’ compensation levels (such as disparity with officers, deviation from publicly accepted levels).

By implementing these measures, the level of total compensation (the sum of the basic compensation, the annual bonus and the long-term incentives) for officers of the Company shall be designed to be higher than the level of domestic Peers if 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.

(3) Payment items

(a) *Annual bonus*

The mechanism of the annual bonus focuses on accountability to stakeholders such as shareholders, and incentives for Executive Officers, directly determining bonuses according to the performance of the Company and to the degree 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 annual bonus.

(b) *Share-based compensation involving stock options*

Share -based compensation involving stock options allot stock acquisition rights with a restriction on transfer, for which the amount to be paid upon exercise of the right is ¥1 per share, differing from the directors’ retirement benefits system in that it ensures compensation is linked to the share price, and

differing from ordinary stock options in that it can function as an incentive even when share prices are falling.

In addition, the share based compensation involving stock options is characterized as performance-linked compensation by correlating the number of exercisable stock acquisition rights with the consolidated Return on Invested Capital (ROIC), which is set forth as a target performance indicator in the medium-term management plan, and we believe this makes it suitable as medium- to long-term incentive-based compensation. Furthermore, with regard to the sale of shares, the Company has established guidelines encouraging the holding of a given number of the Company's shares in accordance with the position of each individual, thereby promoting management that is conscious of shareholder value.

Meanwhile, stock options that are not conditional upon the achievement of performance targets are granted to Independent Directors, and both types of stock options are granted to Non-executive Inside Directors.

#### (4) Risk management

The compensation systems of the Company are designed as follows to prevent shortsighted managerial decisions and prevent any distortion in management decisions due to excessively incentive-based compensation.

- The limit of the annual bonus provided shall be set to a maximum of 200%.
- Guidelines for holding the Company's shares shall be established to share values with shareholders in the medium to long term.
- It shall be stipulated that the Board of Directors and the Compensation Committee can decide not to authorize the exercise of stock acquisition rights in the event of any fraud in accounting or a large amount of loss regarding unexercised long-term incentives (stock acquisition rights).

#### Supporting System for Independent Directors **Updated**

To support gathering sufficient information by Independent Directors, the secretariat of the Board of Directors, which is under the Corporate Strategy Planning & Governance Enhancement Department, distributes materials for deliberation prior to each meeting of the Board of Directors and provides explanations on content of the respective agenda items to Independent Directors to ensure active discussions at and the smooth operation of the Board of Directors meeting.

In addition, The Independent Directors' Meeting can hire independent advisors specializing in areas including legal affairs, accounting and finance at the cost of the Company without prior approval of the Board of Directors and Executive Officers, if it is deemed necessary for its activities.

Meanwhile, a permanent committee secretariat for each Committee has established, and supported, the activities of Independent Directors serving as a member of the Committee to enable each Committee to exhibit its functions efficiently and appropriately.

## 2. Matters on Functions of Business Execution, Auditing, Supervision, and Nomination and

### Compensation Decisions (Overview of Current Corporate Governance System) **Updated**

Under EBARA's Basic Policy the Company has adopted the organization form of a "Company with Three Committees," to make clear the division of roles and responsibilities between the Board of Directors and executive organizations, and delegates the authority over an extensive range of business execution to the executive organizations, thereby promoting flexible and swift business management, strengthening competitiveness and allowing an appropriate level of risk to be taken in the execution of business.

As of June 23, 2017, the Company's framework for the corporate governance is as described below.

→See also the Corporate Governance Framework as of June 23, 2017 in Appendix 4.

## **Supervision**

### **1) Board of Directors**

The Board of Directors recognizes three tasks as its principal roles and responsibilities: 1) indicating the general direction of the Company such as corporate strategies, etc.; 2) developing an environment that can support adequate risk-taking in business execution; and 3) carrying out highly effective supervision of business execution from an independent and objective standpoint.

Furthermore, the Board of Directors exercises its leadership in developing an environment in which the management can take bold action to prevent the loss of upside opportunities, in addition to developing an environment that incorporates controls for preventing downside risks, including the risk of scandals.

The Board of Directors is made up of at least one third Independent Directors, and a majority of Directors who are Independent Directors and Non-executive Inside Directors (directors who do not concurrently serve as Executive Officers of the Company) to clearly separate supervision and execution of business. Furthermore, a Director who does not concurrently serve as Executive Officers is appointed as chairman of the Board of Directors, separate from the President and Representative Officer.

As of June 23, 2017, the Board of Directors comprises thirteen (13) Directors, seven (7) of whom are Independent Directors (including two (2) women), three (3) Non-executive Inside Directors, and three (3) Executive Directors. *Natsunosuke Yago*, a Non-executive Inside Director, acts as chairman of the Board of Directors. Fourteen (14) meetings were held in fiscal year 2016.

### **2) Nomination Committee**

The Nomination Committee is mainly responsible for deciding on the proposals submitted to the General Meeting of Shareholders concerning the election and dismissal of Directors, recommendations to the Board of Directors concerning the election and dismissal of Executive Officers, and recommendations to the Board of Directors concerning the appointment and dismissal of Directors with special title and Executive Officers with special title. The Nomination Committee is made up of only Independent Directors and Non-executive Inside Directors (directors who do not concurrently serve as Executive Officers of the Company) and a majority of the committee is made up of Independent Directors.

As of June 23, 2017, the Nomination Committee comprises three (3) Directors, two (2) of whom are Independent Directors and one (1) of whom is a Non-executive Inside Director. *Sakon Uda*, an Independent Director, acts as chairperson of the Nomination Committee. Seven (7) meetings were held in fiscal year 2016.

### **3) Compensation Committee**

The Compensation Committee decides on the policy on individual compensation, etc., for Directors and Executive Officers along with the individual compensation, etc., for Directors and Executive Officers, in addition to making recommendations to the Board of Directors concerning the officers' compensation system including that for affiliates. The Compensation Committee is made up of only Independent Directors and Non-executive Inside Directors (directors who do not concurrently serve as Executive Officers of the Company), and a majority of the committee is made up of Independent Directors.

As of June 23, 2017, the Compensation Committee comprises three (3) Directors, all of whom are Independent Directors. *Shiro Kuniya*, an Independent Director, acts as chairperson of the Compensation Committee. Three (3) meetings were held in fiscal year 2016.

### **4) Audit Committee**

The Audit Committee is responsible for conducting audits to assess whether or not Directors, Executive Officers, and employees of the Company and its subsidiaries are in compliance with legal obligations and internal regulations. In addition, the Committee endeavors to monitor Executive Officers and verify whether they execute their duties in a sound, fair, appropriate and efficient manner in accordance with the basic policies for management and the medium- and long-term management plans, which are established by the Board of Directors. The Audit Committee is made up of only Independent Directors and Non-executive Inside Directors (directors who do not concurrently serve as

Executive Officers of the Company), and a majority of the committee is made up of Independent Directors.

As of June 23, 2017, the Audit Committee comprises five (5) Directors, three (3) of whom are Independent Directors and two (2) of whom are Non-executive Inside Directors. *Tetsushi Fujimoto*, a Non-executive Inside Director, acts as chairperson of the Audit Committee. Fourteen (14) meetings were held in fiscal year 2016.

5) Independent Directors' Meeting

The Independent Directors' Meeting, 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 meeting.

As of June 23, 2017, *Sakon Uda*, an Independent Director, acts as the Lead Independent Director. Thirteen (13) meetings were held in fiscal year 2016.

6) External Independent Auditor

The Company has entered into an audit agreement with Ernst & Young ShinNihon LLC, which conducts the Company's accounting audits with respect to audits required by the Companies Act and the Financial Instruments and Exchange Act. Names of the engagement partners of Ernst & Young ShinNihon LLC and their respective periods of performing the Company's accounting audits are as follows:

*Hirokazu Sekiguchi* (4 years), *Kiomi Horikoshi* (2 years) and *Seizaburo Oya* (6 years).

## **Execution of Business**

1) Executive Officers

Executive Officers are elected by a resolution of the Board of Directors. 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 strategies as determined by the Board of Directors. Although all twelve (12) of the Executive Officers are currently Japanese males, the Company is considering the appointment of female Executive Officers and Executive Officers of foreign nationality in the future from the standpoint of diversity.

2) Internal Audit System

The Corporate Audit Section conducts internal audits, the results of which are reported to the President and Representative Executive Officer. The Corporate Audit Section, in accordance with the Internal Audit Rules, performs internal audits to evaluate the development and operation status of compliance, risk management and internal controls of each business execution division of the Company and its subsidiaries, in order to check and evaluate whether business is being executed appropriately in line with management policy and rules and regulations, and to give advice and recommendations toward improvement.

3) Meeting Bodies for Business Execution

(1) 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 EBARA Group as a whole, based on their own experience and knowledge. The Management Meeting is held every month. Twelve (12) meetings were held in fiscal year 2016.

(2) 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. Four (4) meetings were held in fiscal year 2016.

(3) Risk Management Panel

The Risk Management Panel (hereinafter referred to as “RMP”) 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.

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 four (4) periodic meetings every year, RMP meetings are held as required. A total of nine (9) meetings were held in fiscal year 2016.

(4) CSR Committee

The CSR Committee determines the policy of CSR activities and monitors the status of compliance, as well as the status of the maintenance and operation of internal controls at the Company and its subsidiaries in accordance with the EBARA Group CSR Policy and the EBARA Group Code of Conduct. It also gives instructions for improvement as appropriate based on the results of internal audits. The CSR Committee is chaired by the President and Representative Executive Officer, Executive Officers serve as members, and the lawyers in charge of the Compliance Consultation Counter participate in the committee meetings as advisors. 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 CSR Committee, and providing advice and the like as necessary. The CSR Committee 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. The CSR Committee holds meetings once every quarter, and four (4) meetings were held in fiscal year 2016.

(5) Disclosure Committee

A 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 EBARA Group as a whole. The Disclosure Committee collects corporate information that needs to be disclosed without omission, deliberates on whether or not to disclose it, the content and timing of disclosure, and reports to the President and Representative Executive Officer. Furthermore, it carries out disclosure procedures after completion of internal authorization procedures. Seven (7) meetings were held in fiscal year 2016.

→For further information on of the Disclosure Committee, see pages 37-38.

### 3. Reasons for Adoption of Current Corporate Governance System Updated

The Company, in the interest of enhancing its corporate governance system, introduced the Executive Officer system in 2002, established the Nomination Committee and the Compensation Committee as voluntary committees while adding two (2) Independent Directors in 2008, and further increased the

number of Independent Directors to four (4) in 2011, which accounts for one-third (1/3) 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 Committees," which has the Nomination Committee, the Compensation Committee and the Audit Committee as statutory committees to enhance its corporate governance from the aspects (1) through (3) 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, with each Committee being made up of a majority of Independent Directors.

- (1) *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 Outside Directors, we intend to reinforce the Board's function to supervise corporate management from the perspective of enhancing its independence, objectivity and transparency.

- (2) *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.

- (3) *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. Implementation of Measures for Shareholders and Other Stakeholders

#### 1. Measures to Revitalize the General Meeting of Shareholders and Facilitate the Smooth Exercise of Voting Rights Updated

	Supplementary Explanations
Early Notification of General Meeting of Shareholders	<p>The Company distributes a notice of convocation around three weeks prior to the meeting as a general rule. For the 152nd Ordinary General Meeting of Shareholders (the fiscal year ended March 31, 2017), the notice was distributed on Thursday, June 1, 2017, 21 days prior to the date of the meeting.</p> <p>The Company disclosed the notice of convocations on its website before the date of mailing in light of earliest possible information service (Japanese: on May 26, English translation: on June 1.)</p>
Scheduling Ordinary General Meeting of shareholders to Avoid the Peak Period	The Ordinary General Meeting of Shareholders is scheduled on off-peak days, when many other companies' meetings are not concentrated (the 152nd Ordinary General Meeting of Shareholders was held on Friday, June 23, 2017).
Allowing the Electronic Exercise of Voting Rights	The exercise of voting rights via the Internet has been adopted since the 142nd Ordinary General Meeting of Shareholders (the fiscal year ended March 31, 2007).
Participation in Electronic Voting Platform and Other Initiatives to Enhance the Voting Environment for Institutional Investors	The Company has been participating in the electronic voting platform operated by ICJ since the 142nd Ordinary General Meeting of Shareholders (the fiscal year ended March 31, 2007).
Providing Convocation Notice in English	For facilitating foreign shareholders' exercise of voting rights, an English version of the notice of convocation of the General Meeting of Shareholders is prepared and posted on the websites of the Tokyo Stock Exchange and the Company, along with the original Japanese version.
Other	<p>From the 150th Ordinary General Meeting of Shareholders, the Company started to organize events such as the introduction of its business and the exhibition of its product line before or after the commencement of the General Meeting of Shareholders, as part of an initiative to promote shareholders' understanding of its businesses. In addition, a video of the business report shown at the Meeting is posted on the Company's website.</p> <p>Furthermore, the voting status of the shareholders present at the Meeting was monitored by a questionnaire, distributed on the spot as a reference, to be added to the voting results up to the day prior to the Meeting, and disclosed in the extraordinary report.</p>

#### 2. IR Activities Updated

	Supplementary Explanations	Explanation by the Representative
Preparation and Publication of Disclosure Policy	<p>Stated in "V. Other, 2. Other Matters Concerning the Corporate Governance System"</p> <p>In addition, the Company prepares and publishes the "IR Basic Policy" as policies for executing IR activities for enhancing its corporate value through constructive dialogue with shareholders and investors.</p>	N/A



	Supplementary Explanations	Explanation by the Representative
Regular Investor Briefings for Individual Investors	Regular tours for individual shareholders are held a few times per year, and the executives responsible for each business segment give presentations on the content of business, factories and products. Three (3) tours were held in fiscal year 2016.	No
Regular Investor Briefings for Analysts and Institutional Investors	Presentation meetings are held after the release of the annual and second-quarter financial results, where the President and Representative Executive Officer and executives responsible for each business segment give presentations on the Company's business performance and management strategies. In addition, presentation meetings in the form of teleconferences are held after the release of the first-quarter and third-quarter financial results. Factory tours and presentations on business activities for each business segment are also held as appropriate.	Yes
Regular Investor Briefings for Overseas Investors	The Company participates in domestic and overseas conferences organized by securities companies. The Company also visits each overseas institutional investor individually, mainly those in Europe and the United States, gives presentations on the Company's performance and management strategies on a regular basis, and engages in constructive dialogue.	Yes
Posting of IR Materials on Website	The Company's website ( <a href="http://www.ebara.co.jp/en/about/ir/index.html">http://www.ebara.co.jp/en/about/ir/index.html</a> ) publishes the Company's timely disclosure materials, including financial results and supplementary materials, presentation materials and medium-term management plans, as well as reports for shareholders and annual securities reports, among others.	N/A
Establishment of Department and/or Appointment of Manager in Charge of IR	The Investor Relations Section, which reports directly to the President and Representative Executive Officer, is in charge of investor relations.	N/A

### 3. Measures to Ensure Due Respect for Stakeholders Updated

	Supplementary Explanations
Stipulation of Internal Rules for Respecting the Position of Stakeholders	In the EBARA Group CSR Policy and the EBARA Group Code of Conduct, the Company, in order to maintain fair and appropriate relationships with its various stakeholders, articulates its respect for the position of each stakeholder including shareholders, customers, suppliers, local communities, and employees.
Implementation of Environmental Activities, CSR Activities, etc.	<p>The EBARA Group CSR Policy and the EBARA Group Code of Conduct serve as the Group's corporate ethics standards.</p> <p>In addition, we have signed up to the United Nations Global Compact, practicing its 10 principles that cover the areas of human rights, labor, the environment and anti-corruption.</p> <p>Under the supervision of the President and Representative Executive Officer, a special unit dedicated to risk management is in place, which engages in the management of various risks involving compliance, human rights and the environment based on clearly defined responsibilities and authority. Information on its activities as well as the Company's initiatives in the areas of the environment, society and governance are disclosed through media such as the "EBARA Group CSR Report" and integrated</p>

	Supplementary Explanations
	<p>reports, as well as on the Company's website. The CSR Committee has been established as a body to formulate the basic policies of CSR activities, and to deliberate on the framework of CSR activities. The Independent Directors and Non-executive Inside Directors actively attend the CSR Committee as observers. The deliberations of the CSR committee are reported to the Board of Directors, and the Board of Directors establishes a system enabling it to exhibit supervisory function by accurately grasping information. The CSR Committee holds regular meetings four times a year as part of an effort to promote CSR activities. As a result of due appreciation of the aforementioned activities, the Company has been selected as a constituent company of the world's leading socially responsible investment (SRI) index, "FTSE4Good Index," which indicates that the Company is qualified for SRI. The Company has also been included in the "Morningstar Socially Responsible Investment Index," the "FTSE Blossom Japan Index," the "MSCI Japan ESG Select Leaders Index," the "MSCI Japan Empowering Women Index," and the "UN Global 100 Index."</p>
Development of Policies on Information Provision to Stakeholders	<p>Under the EBARA Group CSR Policy and the EBARA Group Code of Conduct, the Company provides for the timely and appropriate disclosure of information to stakeholders based on transparency.</p> <p>Additionally, the Company has in place a cross-sectional Disclosure Committee with specific administrative rules to provide a framework to enable the fair, timely and appropriate disclosure of corporate information.</p>
Other	<p><b>Initiatives Toward Diversity</b></p> <p>Under the EBARA Group CSR Policy, which declares, "We respect human rights and diversity above all else," and "We sustain a safe workplace and strive for a stimulating work environment," the Company aims to develop a work environment in which employees of diverse backgrounds, in terms of gender, nationality or physical ability, can respect each other's individuality and maximize their potential to the fullest.</p> <p>In April 2015, the Company established the Diversity Promotion Department as a special unit directly under the supervision of the President and Representative Executive Officer to accelerate activities for personnel affairs and human resources development that respect diversity. The Company has been promoting "reforms in the way we work through promoting the success of female employees" by drafting a Diversity Declaration that underlies the various activities and addresses this issue from the three perspectives of "raising awareness and reforms of the corporate culture," "development of systems and the environment," and "business reforms and the visualization of business processes."</p> <p><b>Diversity Declaration</b></p> <ul style="list-style-type: none"> <li>- We create a corporate culture where every individual can utilize their talents and grow to their full potential.</li> <li>- We respect different values and create a dynamic corporate culture that facilitates change while promoting business development and contributing to society.</li> <li>- We aim to create working environments that celebrate diversity and lead to the evolution and innovation of our business processes.</li> </ul> <p><b>Major initiatives to support female employees</b></p> <ul style="list-style-type: none"> <li>- The Company has expanded opportunities for motivated female employees to demonstrate their potential by conducting the exam for</li> </ul>

## Supplementary Explanations

career-track changes. Additionally, employees who have passed this exam will receive full support for their new careers through briefings and training programs.

- From fiscal year 2016, the Company has introduced a trial of a mentor program with the intent to create a space for young female employees to consult with senior female employees regarding career development, achievement of work-life balance, and other issues. Through such programs and other various measures the Company promotes female career development and acceleration.
- In fiscal year 2016, the Company implemented a training program entitled “Diversity Management” for the managers of the EBARA Group and the employees in senior managerial posts.
- At the briefing for the employees who are newly appointed to managerial posts, the Company is raising awareness toward promoting female employees.

### **Number and Composition Ratio of Female Managers (Ebara Corporation)**

As of April 2017,

- Number of female managers: 77
- Composition Ratio of female managers: 5.2%

### **Number and Composition Ratio of non-Japanese Employees (Ebara Corporation)**

As of April 2017,

- Number of non-Japanese employees: 107
- Composition Ratio of non-Japanese employees: 2.5%

The Company has also actively recruited non-Japanese graduates in recent years.

### **Employment of persons with special needs**

- As part of the effort to promote the employment of persons with special needs, the Company established Ebara Earnest Co., Ltd., a special subsidiary geared toward such efforts. The Company strives to create an arrangement that supports vocational independence and social participation of persons with special needs together with local communities and the greater society.

### **Utilization of elderly employees**

- The Company encourages the utilization of elderly employees through a system to re-hire those who have special skills, abilities, qualifications or knowledge as well as those who have highly mature, practical expertise even after retirement age. The engagement of elderly employees is effective for passing down skills and abilities obtained over many years to younger employees.

→Read more, please see:

[http://www.ebara.co.jp/en/about/csr/social/human\\_rights/1209152\\_3116.html](http://www.ebara.co.jp/en/about/csr/social/human_rights/1209152_3116.html)

## IV. Matters Related to the Internal Control System

### 1. Basic Views on Internal Control System and the Progress of System Development Updated

The Company sets out the Basic Policy for Internal Control and strives to realize the content resolved by the Board of Directors of the Company as a system for ensuring appropriate operations.

→Read more on the Basic Policy for Internal Control and Overview of Operation, see Appendix 4.

Every year, Executive Officers perform self-evaluations on the development and operation status of internal controls, and the areas that should be improved are reflected in the next year's plan based on the results in this fashion the Company will continue making improvements. These self-evaluations by Executive Officers are reported to the Board of Directors, and the Board of Directors establishes a system enabling it to exhibit supervisory functions by accurately grasping information.

### 2. Basic Views on Eliminating Anti-social Forces

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

- (1) The Anti-social Forces Countermeasure Headquarters has been established to centralize the management and acquisition of information concerning anti-social forces in cooperation with external specialist agencies, etc., while supporting initiatives towards eliminating any relationships with anti-social forces.
- (2) Regulations for eliminating relationships with anti-social forces are formulated, whereby a system for eliminating relationships with anti-social forces at the Company and its subsidiaries is established, developed and operated.

## V. Other

### 1. Adoption of Takeover Defense Measures

Adoption of Takeover Defense Measures	Not Adopted
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Supplementary Explanation **Updated**

To maximize corporate and shareholder value, the Group has established its “Medium-Term Management Plan,” and has been earnestly taking actions in line with this plan. Accordingly, the Company believes that takeover defense measures are not separate from the Medium-Term Management Plan but are a part of a comprehensive set of initiatives aimed to maintain and enhance corporate value and the common interests of shareholders.

### 2. Other Matters Concerning Corporate Governance System **Updated**

The status of the Company’s internal system relating to the timely disclosure of corporate information is as follows.

#### (1) Basic Policy for Timely Disclosure

The Company recognizes that the disclosure of information in compliance with the laws and regulations regarding financial information, including the Company’s financial position and business performance, management strategies and management issues, and regarding non-financial information, including risk and governance, as well as the proactive provision of information which is not in compliance with laws and regulations, to its stakeholders including shareholders and investors in a fair, appropriate and timely manner, is both fundamental and crucial in order for the Group to gain society’s trust as a listed company and to continue as a going concern.

The Company has established the Disclosure Committee as a body that exhaustively gathers corporate information subject to the decision of disclosure, deliberates whether such information should be disclosed, and determines the details of the corporate information to be disclosed and the timing for such disclosure. The Company has also set forth the Disclosure Committee Operating Rules regarding the procedures for implementing the disclosure of information.

#### (2) Internal system relating to timely disclosures

##### (a) *Disclosure Committee*

The Company has established the Disclosure Committee as a cross-sectional body to handle disclosures of corporate information including events that involve the entire Group and matters that have been decided, as well as financial closing information, in a fair, timely and appropriate manner.

The Disclosure Committee exhaustively gathers corporate information requiring disclosure, deliberates whether such information should be disclosed as well as the contents and the timing of disclosure, and requests the President and Representative Executive Officer to make a decision on such disclosure. The Committee, upon completing the necessary internal approval procedures, undertakes the actual disclosure procedures.

##### (b) *Internal system relating to the implementation of timely disclosures*

In order to conduct disclosures in a fair, timely and appropriate manner, the Company has set forth the Disclosure Committee Operating Rules, and has developed and operated an internal system for the implementation of timely disclosures as follows. The Company conducts appropriate and timely disclosure and going forward intends to make every effort to maintain this internal system.

→For an overview of the internal system relating to the implementation of timely disclosures, please see Appendix 6.

#### ◆Gathering information subject to disclosure

The Corporate Strategy Planning & Governance Enhancement Department, the General Affairs Department, the Legal Department, the Accounting Department, the Finance Department, and the administration departments of each internal company (collectively as information gathering divisions) have been assigned the task of gathering information, and together they make up the system that exhaustively gathers and consolidates information within the Group relating to timely disclosure. Under

this system, information that has been gathered and consolidated by the information gathering divisions is reported to the secretariat of the Disclosure Committee.

The information gathering divisions utilize tools including the guidebook on timely disclosure of corporate information and a list of disclosure criteria (threshold amounts) when gathering information relating to timely disclosure.

◆Deliberation of whether to be disclosed

The secretariat of the Disclosure Committee requests the Disclosure Committee to decide whether disclosure is necessary each and every time it receives information from the information gathering divisions; and prepares and deliberates disclosure drafts regarding information, which has been determined to be disclosed.

◆Implementation of timely disclosure

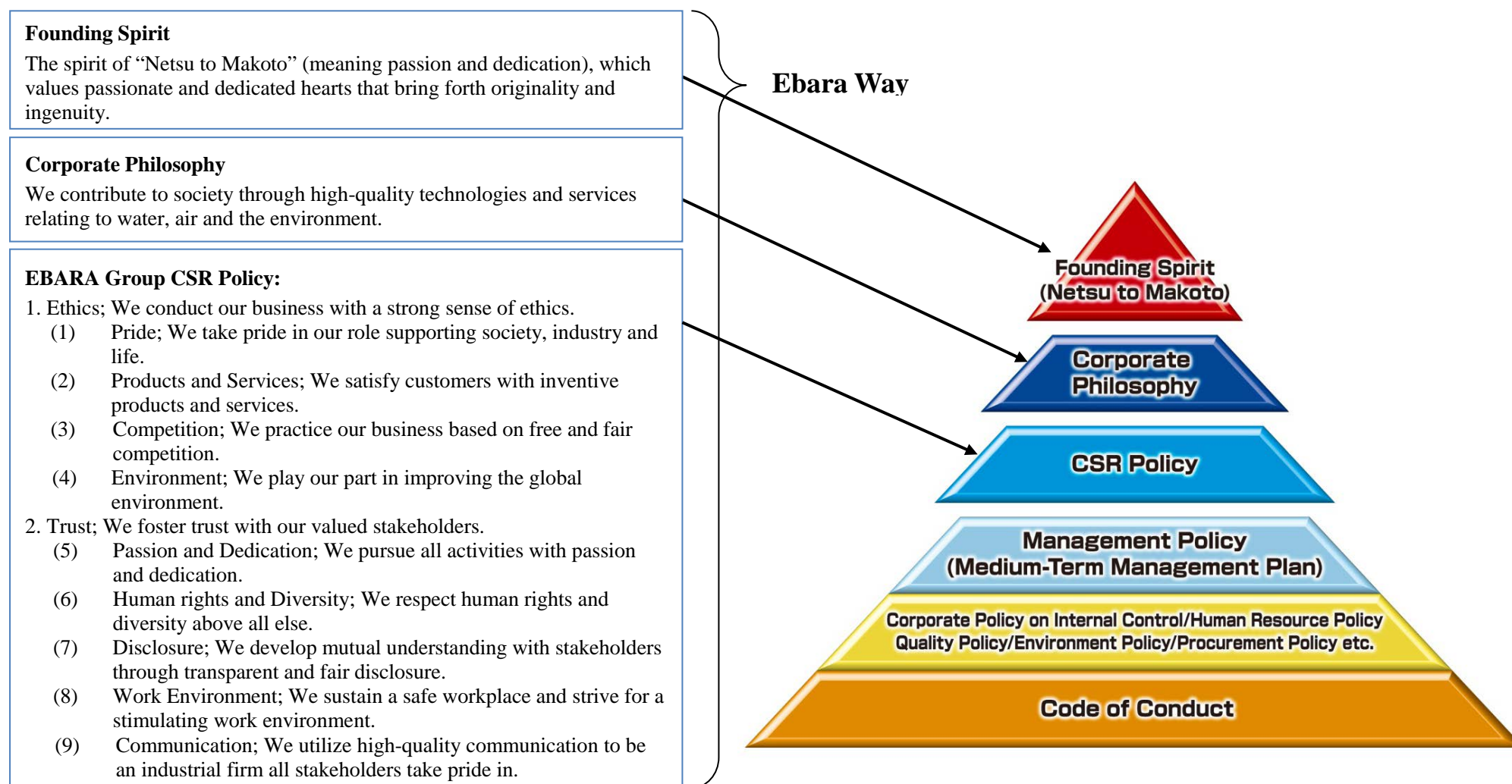
The Accounting Department, upon approval by the President and Representative Executive Officer and the resolution of the Board of Directors, depending on the contents of the information, promptly conducts timely disclosure of information that has been determined by the Disclosure Committee.

As for disclosures to parties other than the stock exchanges, notification to the Kanto Finance Bureau is the responsibility of the Accounting Department; disclosures related to the Companies Act, including those for the Ordinary General Meeting of Shareholders, are the responsibility of the Corporate Strategy Planning & Governance Enhancement Department; and postings on the Company's website are the responsibility of the General Affairs Department.

## ◇ *Appendixes*

- 1 EBARA Group Corporate Ethics Framework
- 2 Independence Standards of Independent Director of EBARA
- 3 Composition of Compensation Paid to Directors and Executive Officers
- 4 Corporate Governance Framework
- 5 System for Ensuring Appropriate Operations and the State of Operation of the System
- 6 Disclosure Process - Corporate information subject to regular disclosure -
- 7 EBARA Corporate Governance Basic Policy

# “EBARA Group Corporate Ethics Framework”





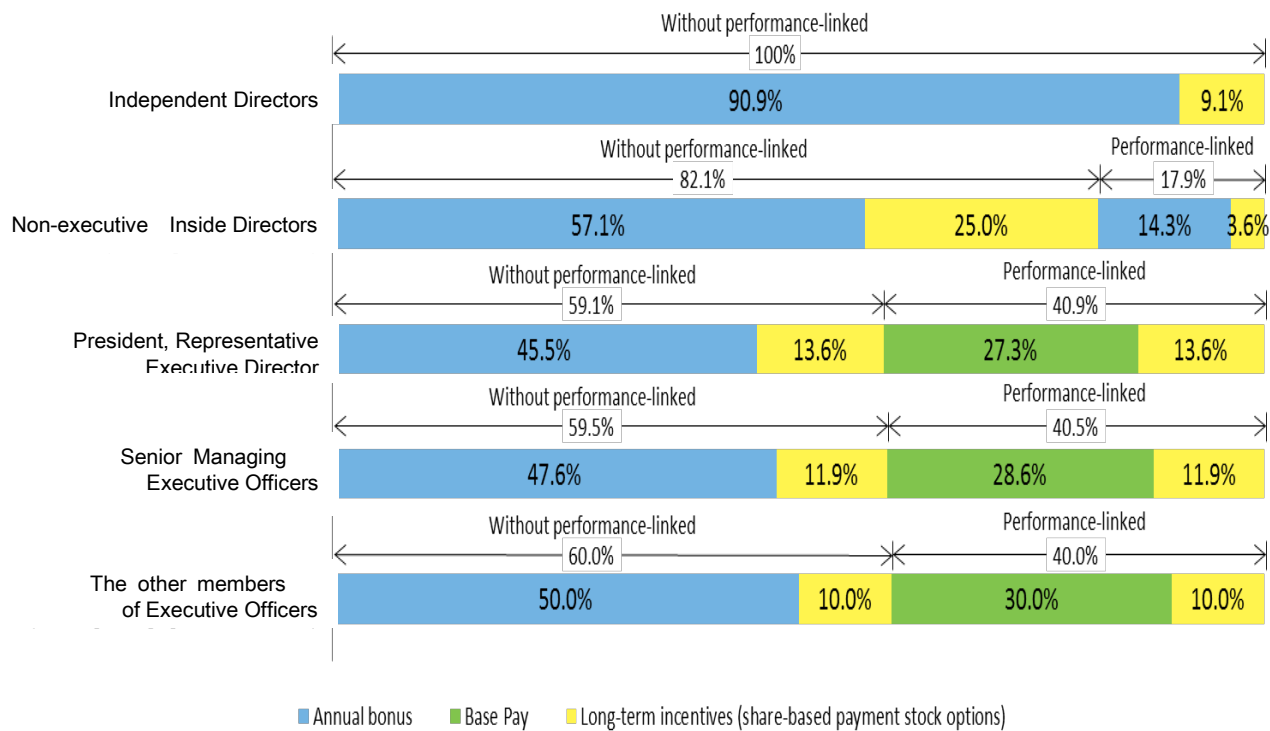
March 2017

## Independence Standards of Independent Director of EBARA

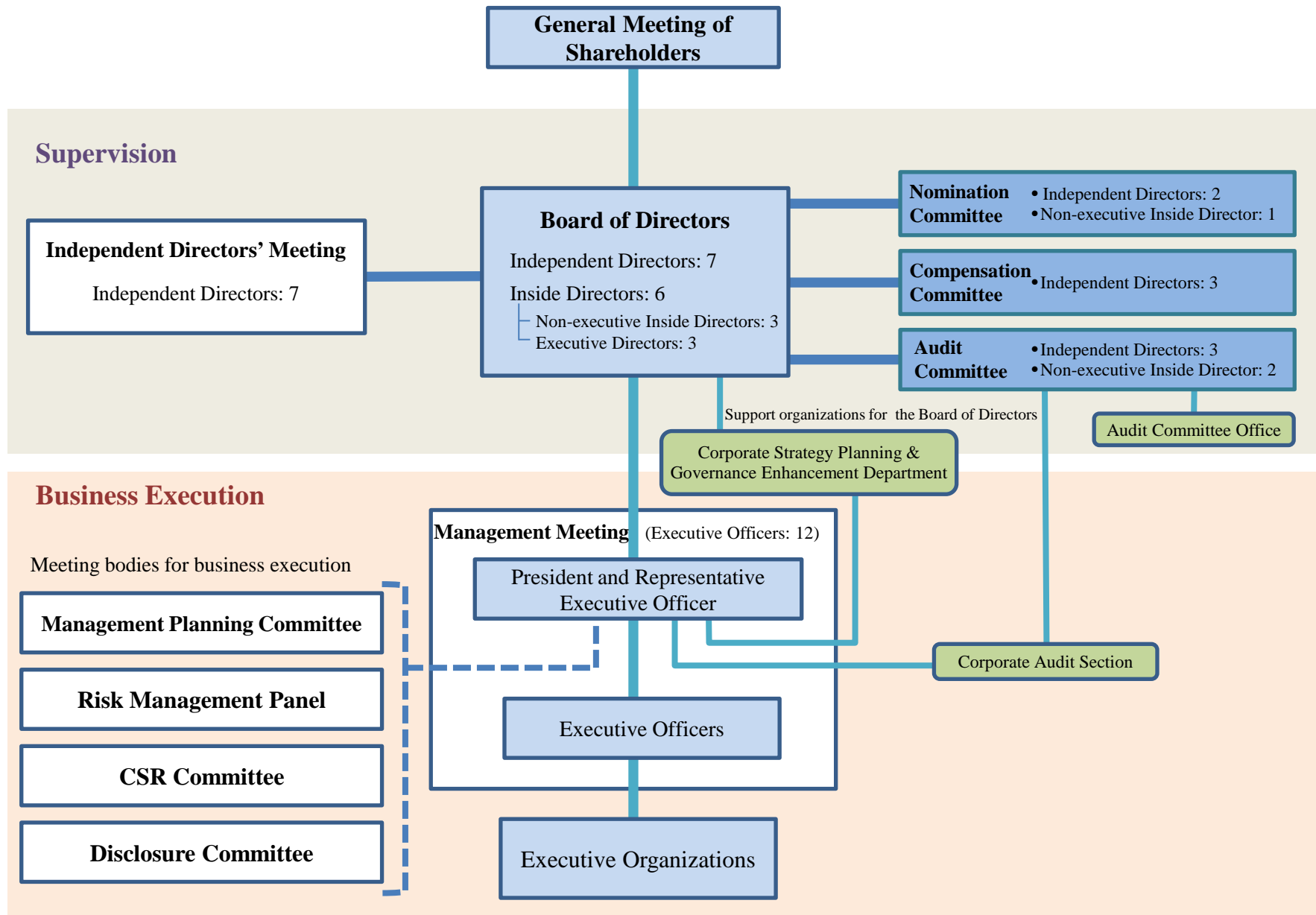
Independent persons with no material interests in the Company are to be appointed as Independent Directors. “Independent persons with no material interests” refer to persons to whom none of the following items applies.

- 1) An internal employee or former internal employees of the Company or its subsidiaries who do not meet the requirements for Outside Directors stipulated in Article 2, Item 15, of the Companies Act.
- 2) A person who has been a director (excluding outside director), statutory auditor (excluding outside audit & supervisory board member), executive officer or employee executing business of a company with a material business relationship with the Company and its consolidated subsidiaries (hereinafter referred to as the “EBARA Group” or “the Group” in this part) in the past five years. “A company with a material business relationship with the EBARA Group” refers to any of the following.
  - i) A company to which sales were made accounting for 2% or more of consolidated net sales of the EBARA Group in any of the fiscal years in the past three years.
  - ii) A company which made sales to the EBARA Group accounting for 2% or more of consolidated net sales of the company in any of the fiscal years in the past three years of procurement by the EBARA Group.
  - iii) The two financial institutions with the highest average balance of borrowings by the EBARA Group at the end of the fiscal year over the past three years.
- 3) A person who is a major shareholder of the Company or the representative of the interests thereof.  
Specifically, a shareholder of the Company holding 10% or more of the total shares issued, or a director, an executive, an executive officer, a manager or other employee of a company representing the interests thereof within the two years preceding the appointment of Director nominees.
- 4) A person providing professional services to the EBARA Group.  
“Professional services” refer to the following categories according to the services provided.
  - i) Certified public accountant  
A person who has been directly engaged in the financial auditing of the EBARA Group in the past five years.
  - ii) Attorney, tax accountant, patent attorney, judicial scrivener or management consultant  
A person who has provided services to the EBARA Group in the past three years and has received annual compensation of 10 million yen (including tax) or more.
- 5) A person who has received or belongs to a for-profit group that has received donations, financing or guarantee of debt from the EBARA Group.
- 6) A person within two degrees of relationship with a relative who falls under Item 1 or Item 2, or person of other degree of relationship who resides with the relative.
- 7) A person who currently serves as a director, an statutory auditor or an executive officer of a company that has accepted a director or an statutory auditor from the EBARA Group.

## Composition of Compensation Paid to Directors and Executive Officers (If 100% of the target for performance-linked compensation is achieved)



# Corporate Governance Framework



## System for Ensuring Appropriate Operations and the State of Operation of the System

Basic Policies for Internal Control	Overview of Operation
<b>1. System to Ensure that the Execution of Duties by Executive Officers and Employees of the Company and Directors, Audit &amp; Supervisory Board Members and Employees of Subsidiaries Complies with Laws and Regulations and the Articles of Incorporation</b>	
Develop, maintain and operate systems to realize the EBARA Group CSR Policy and the EBARA Group Code of Conduct.	<p>(1) A division in charge of compliance has been established to provide education and training to the Company and subsidiaries for ensuring the realization of the EBARA Group CSR Policy and compliance with the EBARA Group Code of Conduct in order to provide deeper understanding and acceptance of compliance.</p> <p>(2) Provisions on the violation of service discipline provisions, the code of conduct and internal rules are stipulated in the service rules and employment regulations, etc. of the Company and its subsidiaries.</p> <p>(3) A CSR Committee chaired by the President, Representative Executive Officer has been established to determine the policy of CSR activities and to monitor the status of compliance, as well as the maintenance and operation of internal controls at the Company and its subsidiaries in accordance with the “EBARA Group CSR Policy” and the “EBARA Group Code of Conduct,” while giving instructions for improvement as appropriate. Four (4) meetings of the committee were held in fiscal year 2016.</p> <p>(4) Compliance penetration surveys are conducted in the Company and domestic subsidiaries every year, and the state of penetration of compliance awareness are tracked to identify issues in compliance activities to reflect in the activities of the following fiscal year.</p> <p>(5) The Compliance Consultation Counter is in place to promptly address any reports or inquiries, etc., on violations of the “EBARA Group Code of Conduct” and laws and regulations at the Company and its subsidiaries, in accordance with the “Regulations for the Operation of the Compliance Consultation Counter.” Furthermore, in fiscal year 2016, whistleblowing contacts were established in external law firms for three Chinese subsidiaries, one Indonesian subsidiary and one Vietnamese subsidiary.</p> <p>(6) The Company and its subsidiaries share compliance information in accordance with the “Regulations for the Operation of the EBARA Group Compliance Network.”</p> <p>(7) The Internal Audit Division is in place, carrying out audits and the monitoring of business operations of the Company and its subsidiaries in accordance with the “Internal Audit Rules.” Internal audit divisions are established in each subsidiary to conduct internal audits. The state of implementation is checked by the Company’s Internal Audit Division.</p>
<b>2. Systems for Storage and Management of Information concerning the Execution of Duties by Executive Officers</b>	
Develop, maintain and operate a system for appropriately storing and managing information concerning the execution of duties by Executive Officers in accordance with laws, regulations and internal rules.	<p>(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.</p> <p>(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 and disseminated throughout the Company and its subsidiaries.</p>

Basic Policies for Internal Control	Overview of Operation
<b>3. <i>Systems for Reporting to the Company on Matters concerning the Execution of Duties by Directors of its Subsidiaries</i></b>	
Develop, maintain and operate appropriate rules for reporting to the Company on matters concerning the execution of duties by Directors of its subsidiaries.	Matters established throughout the EBARA Group and matters that the Company requires its subsidiaries to 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.
<b>4. <i>Regulations and Other Systems Related to Management of the Risk of Losses at the Company and Its Subsidiaries</i></b>	
Establish policies on risk management in the Company and its subsidiaries as well as rules pertaining to their operation. Also develop, maintain and operate systems for implementing risk management.	<p>(1) In order to manage risks associated with the execution of business, persons with approval authority and decision-making procedures are set out in the “Authority Rules,” etc., of the Company and its subsidiaries, whereby risk management is conducted.</p> <p>(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.</p> <p>(3) The Risk Management Panel (hereinafter referred to as “RMP”) 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, Representative Executive Officer, and made up of all Executive Officers. In addition to four periodic meetings every year, meetings are held as required. A total of nine (9) meetings were held in fiscal year 2016.</p>
<b>5. <i>Systems to Ensure the Efficient Execution of Duties by Executive Officers of the Company and by Directors of Its Subsidiaries</i></b>	
<p>(1) The administrative authority of Executive Officers of the Company and Directors of its subsidiaries in the execution of operations is clarified.</p> <p>(2) Develop, maintain and operate systems to enable efficient execution of duties by the Company’s Executive Officers and Directors of its subsidiaries through the formulation and execution of management plans based on basic management policies.</p>	<p>(1) The Board of Directors of the Company entrusts the authority and responsibility for the execution of business to Executive Officers, and ensure the efficient execution of duties by Executive Officers by supervising the execution of duties by Executive Officers.</p> <p>(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.</p> <p>(3) The Board of Directors of the Company formulates basic management policies, reflects the basic policies in the annual management plans of the Company and its subsidiaries, and executes its duties.</p> <p>(4) Executive Officers of the Company review the annual consolidated management plans on a quarterly basis in the Management Planning Committee.</p> <p>(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, Representative Executive Officer. The Management Meeting is held once every month.</p>

Basic Policies for Internal Control	Overview of Operation
<b>6. Systems for Shutting Out Antisocial Elements</b>	
<p>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.</p>	<p>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.</p> <p>Furthermore, investigations of business partners, internal education, and the like are conducted based on the “Guidelines on Shutting Out Antisocial Elements,” in addition to periodically holding liaison meetings attended by personnel responsible for preventing undue claims in the Company and domestic subsidiaries. One (1) meeting was held in fiscal year 2016.</p>
<b>7. Systems to Ensure the Appropriate Operations of the EBARA Group, Comprising the Company and Its Subsidiaries</b>	
<p>Establish 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.</p>	<p>(1) An internal control system is in place according to the scale and characteristics of business of the Company and its subsidiaries. The Company provides support for the establishment of internal control systems in subsidiaries.</p> <p>(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.</p>
<b>8. Systems for Assigning Employees to Assist the Audit Committee in the Execution of Its Duties</b>	
<p>Establish a department that assists the Audit Committee in the execution of its duties.</p>	<p>The Audit Committee Office has been established as a department that assists the Audit Committee in the execution of its duties.</p>
<b>9. 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</b>	
<p>(1) Appoint employees who assist the Audit Committee’s execution of its duties (hereinafter “assistants to the Audit Committee”) from among the employees of the Company, subject to the consent of the Audit Committee.</p> <p>(2) Assistants to the Audit Committee shall not concurrently engage in business operations concerning the execution of duties by Executive Officers of the Company, thereby ensuring the independence of assistants to the Audit Committee from Executive Officers.</p> <p>(3) Assistants to the Audit Committee shall act only under the instruction of the Audit Committee, thereby ensuring the effectiveness of instructions of the Audit Committee.</p>	<p>(1) Assistants to the Audit Committee are appointed from among the employees of the Company with the consent of the Audit Committee and belong to the Audit Committee Office. At present, four members belong to the Audit Committee Office.</p> <p>(2) Assistants to the Audit Committee are not concurrently engaged in business operations concerning the execution of duties by Executive Officers of the Company. Assistants to the Audit Committee act under the instruction of the Audit Committee, thereby ensuring the effectiveness of instructions of the Audit Committee.</p> <p>(3) Assistants to the Audit Committee serve as Audit &amp; Supervisory Board Members of Group companies with the prior approval of the Audit Committee.</p> <p>(4) The personnel transfer, appraisal, and the like of the employees assisting the Audit Committee is determined with the consent of the Audit Committee.</p>

Basic Policies for Internal Control	Overview of Operation
<p>(4) Notwithstanding the preceding two paragraphs, assistants to the Audit Committee may engage in other business operations, subject to the prior approval of the Audit Committee.</p> <p>(5) The personnel transfer, appraisal, and the like of the employees assisting the Audit Committee shall be determined upon obtaining the consent of the Audit Committee.</p>	
<p><b>10. Systems for Reporting to the Audit Committee of the Company by Executive Officers and Employees, etc., of the Company and by Directors, Audit &amp; Supervisory Board Members and Employees, etc., of Its Subsidiaries, and Other Reporting to the Audit Committee of the Company</b></p>	
<p>(1) Develop, maintain and operate 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.</p> <p>(2) Develop, maintain and operate a system whereby Directors, Audit &amp; Supervisory Board Members and employees, etc., of subsidiaries in addition to persons receiving reports therefrom report to the Audit Committee.</p> <p>(3) Any person having made a report under the two preceding paragraphs shall not be subject to disadvantageous treatment because of such reporting.</p>	<p>(1) 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 CSR Committee, and the RMP.</p> <p>(2) The “Executive Officer Rules” have been established, and Executive Officers promptly report to the Audit Committee in the event they discover a fraudulent act in the course of executing their duties and such act is not redressed immediately.</p> <p>(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.</p> <p>(4) The Compliance Consultation Counter is in place to promptly address any reports or inquiries, etc., on violations of the “EBARA Group Code of Conduct” and laws and regulations at the Company and its subsidiaries, in accordance with the “Regulations for the Operation of the Compliance Consultation Counter.” Furthermore, in fiscal year 2016, whistleblowing contacts were established in external law firms for three Chinese subsidiaries, one Indonesian subsidiary and one Vietnamese subsidiary. Reports on the state of implementation of these are made to the Audit Committee as appropriate.</p> <p>(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 and Executive Officers, and the Directors of its subsidiaries commit a 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.</p> <p>(6) The Company ensures a system whereby any person having reported to the Audit Committee is not subject to disadvantageous treatment because of such reporting.</p>

Basic Policies for Internal Control	Overview of Operation
<b>11. Other Systems for Ensuring the Effectiveness of Audits by the Audit Committee</b>	
<p>(1) Ensure to maintain effectiveness of audits by establishing an appropriate mutual exchange of opinions and collaboration between the Audit Committee and the departments responsible for internal controls as well as the Internal Audit Division.</p> <p>(2) Establish policies on the treatment of expenses or liabilities incurred in the execution of duties of the Audit Committee in order to ensure the effective execution of audits by the Audit Committee.</p>	<p>(1) The President, Representative Executive Officer regularly exchanges information and opinions with the Audit Committee.</p> <p>(2) Departments responsible for internal controls, the Internal Audit Division and the departments responsible for compliance regularly exchange information with the Audit Committee, and also exchange information on important matters as needed, in an effort to promote mutual collaboration.</p> <p>(3) Policies are in place on the treatment of expenses or liabilities incurred in the execution of duties of the Audit Committee in order to ensure the effective execution of audits by the Audit Committee.</p>
<b>12. Systems for Ensuring the Credibility of Financial Reports</b>	
<p>The Company shall develop and operate an Internal Control system to ensure credibility of financial reporting, in accordance with Standards of Assessment and Audit on Internal Control over Financial Reporting, as well as Practice Standards of Assessment and Audit on Internal Control over Financial Reporting.</p>	<p>(1) To ensure the credibility of consolidated financial reports, the “Standards for the Enforcement of Internal Controls over Financial Reporting” has been established for the purpose of maintaining and operating internal controls based on the Financial Instruments and Exchange Act.</p> <p>(2) The scope of assessment is established every fiscal year in consideration of the impact on the financial reporting, significance in terms of management, and the like, for the purpose of improvement and enhancement based on the assessment made by an independent assessment team.</p>



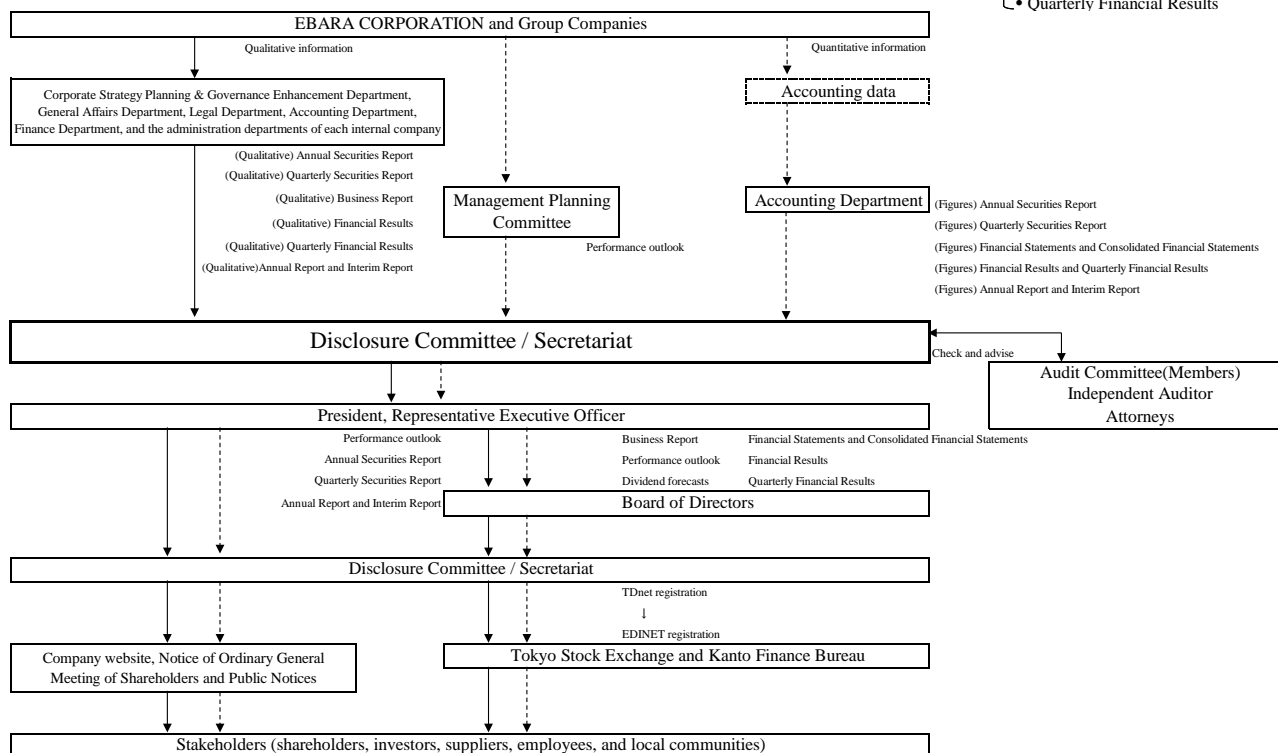
## Disclosure Process — Corporate information subject to regular disclosure —

Types of corporate information subject to disclosure

- (1) Qualitative information concerning financial results, performance outlook and dividend forecasts
- (2) Quantitative information concerning financial results, performance outlook and dividend forecasts

《Disclosed documents》

- Annual Securities Report
- Quarterly Securities Report
- Business Report
- Financial Statements and Consolidated Financial Statements
- Annual Report and Interim Report
- Financial Results (including Supplementary Materials)
- Quarterly Financial Results



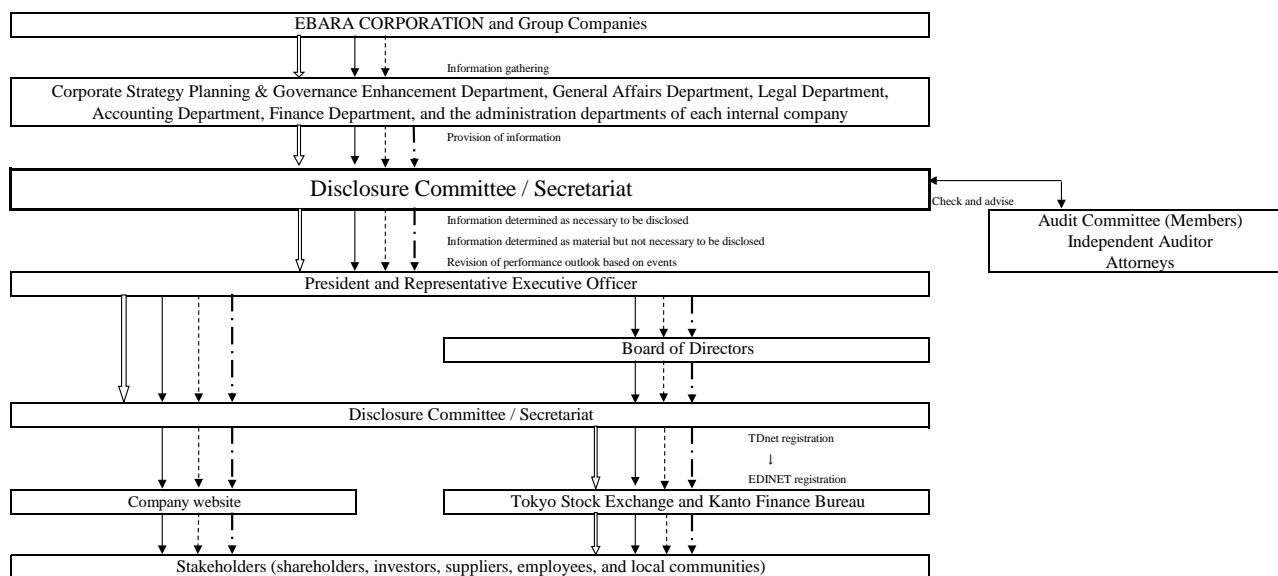
## Disclosure Process — Corporate information subject to extraordinary disclosure —

Types of corporate information subject to disclosure

- (1) Information relating to decided matters
- (2) Information relating to events
- (3) Information relating to performance outlook and dividend forecasts
- (4) Information relating to corporate governance

《Disclosed documents》

- Extraordinary Report
- Securities Registration Statement
- (TSE Timely Disclosure) Notices
- Corporate Governance Report



## Notes:

- 1) This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.
- 2) The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

**EBARA Corporate Governance****Basic Policy****Preface**

This basic policy is set to establish the basic approach on the corporate governance of EBARA CORPORATION (hereinafter “**the Company**”), with the aim of contributing to the sustainable growth and medium- to long-term enhancement of the corporate value of the Company and the EBARA Group (hereinafter “**the Group**”).

**Chapter 1 General rules**

## Basic approaches on corporate governance

## Article 1

1. The Company has established the “EBARA Way,” composed of its “Founding Spirit,” “Corporate Philosophy” and the “EBARA Group CSR Policy” as the EBARA 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 and shareholder return through sustainable business development as its most important management objectives. To achieve such objectives, the Company constantly seeks the best possible corporate governance and strives towards 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

- (1) Ethics; We conduct our business with a strong sense of ethics.
  - 1) Pride; We take pride in our role supporting society, industry and life.
  - 2) Products and Services; We satisfy customers with inventive products and services.
  - 3) Competition; We practice our business based on free and fair competition.
  - 4) Environment; We play our part in improving the global environment.
- (2) Trust; We foster trust with our valued stakeholders.

- 5) Passion and Dedication; We pursue all activities with passion and dedication.
  - 6) Human Rights and Diversity; We respect human rights and diversity above all else.
  - 7) Disclosure; We develop mutual understanding with stakeholders through transparent and fair disclosure.
  - 8) Work Environment; We sustain a safe workplace and strive for a stimulating work environment.
  - 9) Communication; We utilize high-quality communication to be an industrial firm all stakeholders take pride in.
2. The Company 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.
  - (2) The Company strives to appropriately cooperate with various stakeholders, including customers, business partners, employees and local communities. The Company will also develop a corporate culture in which such stakeholders' rights and positions are respected and business is executed soundly.
  - (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 who do not concurrently serve as Executive Officers (hereinafter "**Non-executive Inside Directors**"). The Company has adopted the organizational form of a "Company with Three 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 engages in constructive dialogue with shareholders and investors on the basis of a separately established "IR Basic Policy," with a view to contributing to sustainable growth and the medium- to long-term enhancement of corporate value.

## **Chapter 2 Respect for shareholders' rights and ensuring equality among shareholders**

### General Meeting of Shareholders

#### Article 2

1. The Company, in convening the Ordinary General Meeting of Shareholders, distributes the notice of convocation approximately three weeks prior to the date of the meeting, in order for shareholders to appropriately and effectively exercise their voting rights based on a sufficient period of time for reviewing the proposals for the meeting. Meanwhile, the notice of convocation is posted on the Company's website following a resolution by the Board of Directors on the convocation of the General Meeting of Shareholders, and preceding the distribution date of the notice. In addition, for the purpose of convenience for non-Japanese shareholders, an English version of the notice of convocation is prepared and posted on the Company's website.
2. The Company strives to create an environment (including efforts to schedule the General Meeting of Shareholders on a different date from that of other companies) in which all shareholders, including those who cannot attend the General Meeting of Shareholders in person, can appropriately and effectively exercise their voting rights, through the use of such means as an electronic voting platform.

#### Ensuring equality among shareholders

##### Article 3

The Company treats all shareholders fairly, according to their respective shareholding. In addition, the Company discloses its corporate information in a timely and sufficient manner, in an effort to eliminate any potential information gap among shareholders.

#### Basic policy for cross-shareholdings and the exercise of voting rights in cross-shareholdings

##### Article 4

1. The Company's basic policy is to minimize the proportion of cross-shareholdings. However, the Company may hold shares of other companies as cross-shareholdings only when it is reasonably determined that such shareholdings will lead to development of business and/or financial relationship with investees and contribute to the enhancement of the Group's corporate value. The rationale for such cross-shareholding relationships is subject to regular review by the Board of Directors. If it is deemed by the Board of Directors that it is no longer feasible to hold a cross-shareholding, the shareholding shall be dissolved when appropriate by disposal or other means.
2. The Company exercises its voting rights in cross-shareholdings, determining whether to vote for or against after comprehensive consideration of whether it contributes to the medium- to long-term enhancement of the corporate value of the Group and investees.

### **Chapter 3 Respect for the interest of stakeholders and appropriate cooperation with them**

Ethical standards and restrictions on competitive transactions and transactions involving conflicts of interest

#### **Article 5**

1. The Company separately establishes and discloses ethical standards (the “EBARA Group CSR Policy” and the “EBARA Group Code of Conduct”) by the Board of Directors to ensure that the Company’s Directors, Executive Officers and employees, etc., act ethically at all times.
2. The Company’s Directors and Executive Officers shall obtain prior approval of the Board of Directors when they are to “carry out transactions that belong to the line of business of the Company (competitive transactions) for themselves or for a third party” or “carry out transactions with the Company, or transactions that involve conflicts of interest between themselves and the Company (transactions involving conflicts of interest), including transactions between the Company and a third party for which they receive a commission, etc.”

Relationship with stakeholders

#### **Article 6**

1. The Company respects the rights, viewpoints and interests of all stakeholders, including customers, business partners, creditors, employees and local communities, as well as shareholders, and appropriately cooperates with them for the sustainable growth and medium- to long-term enhancement of the corporate value of the Group.
2. The Company respects diversity in terms of its relationship with various stakeholders including employees. The Company is also committed to implementing a policy for promoting diversity that includes the encouragement of female employees to play active roles, based on the recognition that respect for diversity contributes to the medium- to long-term enhancement of the corporate value of the Group.

Whistle-blowing

#### **Article 7**

The Company has established a system that enables employees, etc., of the Group to directly report questionable issues to the department in charge of compliance or the Audit Committee, along with a system for directly reporting to an external attorney’s office. Whistle-blowers shall not be subject to any disadvantageous treatment by the Company and the Group, because of using these whistle-blowing systems, which are clearly stated in the employment regulations and other relevant internal rules.

## Chapter 4 Ensuring adequate disclosure and transparency

### Basic policy concerning disclosure

#### Article 8

1. The Company implements timely and adequate disclosure of both financial and non-financial information, as required by laws and regulations including the Companies Act as well as rules of financial instruments exchanges and other laws, regulations and systems. Furthermore, the Company strives to actively disclose any information deemed to be useful to stakeholders including shareholders and investors, through various media such as the Company's website and integrated reports, whether or not required by laws, regulations and systems.
2. The Company, in accordance with the Companies Act and other laws and regulations, develops at Board of Directors' meetings the policies concerning risk management, internal control systems and legal compliance, etc., of the Company and the Group, and discloses the information in a timely and sufficient manner.
3. The Company, in principle, discloses its major information in more than two languages, including Japanese and English.

## Chapter 5 Responsibilities of the Board of Directors, etc.

### Board of Directors

#### Article 9

1. The number of Directors comprising the members of the Board of Directors shall not exceed fifteen (15), while more than one-third (1/3) and at least five (5) of the Board members shall be Independent Directors. Additionally, in consideration of the balance between 1) Independent Directors, 2) Non-executive Inside Directors and 3) Executive Directors who concurrently serve as Executive Officers (hereinafter "**Executive Directors**"), the total number of 1) Independent Directors and 2) Non-executive Inside Directors shall be the majority of the number of all Directors.
2. The Board of Directors recognizes three tasks as its principal roles and responsibilities: 1) indicating the general direction of the Company such as corporate strategies, etc.; 2) developing an environment that can support adequate risk-taking in business execution; and 3) carrying out highly effective supervision of business execution from an independent and objective standpoint. The Board of Directors is committed to realizing efficient and effective corporate governance, with an aim to achieve the mission entrusted by shareholders—the "continuous enhancement of corporate value"—while fully recognizing the viewpoints of all stakeholders to a reasonable extent.
3. The Board of Directors exercises its leadership in developing an environment in which the

management can take bold action to prevent the loss of upside opportunities, in addition to developing an environment that incorporates controls for preventing downside risks, including the risk of scandals.

4. The Board of Directors establishes the Board of Directors' Rules, specifying the matters to be resolved and reported to the Board of Directors, and stipulates the scope of matters for which decision-making authority is delegated to Executive Officers. The decision-making authority on matters concerning business execution is delegated to Executive Officers, except those categorized as the exclusive jurisdiction of the Board of Directors by laws and regulations as well as the Articles of Incorporation, including basic management policies (management philosophy, medium- to long-term management plan, and annual budget, etc.) and those that may have a significant impact on the management of the Group.
5. Agendas and proposals of the Board of Directors' meetings and related materials shall be distributed, in principle, prior to each Board meeting, to ensure active debate at the meeting.
6. The Company establishes a secretariat of the Board of Directors with adequate staff and budget to enable the Board to appropriately fulfill its roles and functions.

#### Chairman of the Board of Directors

##### Article 10

1. A Director who does not concurrently serve as Executive Officers serves in the position of the Chairman of the Board of Directors.
2. The Chairman of the Board of Directors sets out the proposals to be deliberated and reported at Board of Directors' meetings, and conducts the proceedings of the Board meetings to ensure that the best possible conclusion is reached efficiently, based on reasonable debate.
3. The Chairman of the Board of Directors sets out the proposals and frequency of the Board of Directors' meetings, to ensure enough time for deliberation of each agenda item.
4. The Chairman of the Board of Directors sets out the annual plan, including the Board of Directors' meeting schedule and expected agendas, and carries out the Board meetings based thereon.
5. The Chairman of the Board of Directors receives reports as appropriate from the Representative Executive Officer on whether the Board of Directors' opinions are adequately reflected in business execution, while monitoring business execution. The Chairman of the Board of Directors reports, as necessary, the status of such reports and monitoring to the Board of Directors, and asks the Board to deliberate for possible

correction of the general direction of business execution, etc.

6. The Chairman of the Board of Directors, in the event where deliberation in permanent committees is deemed insufficient, takes the initiative to fulfill his/her roles such as making proposals to the Board of Directors, including the formation of an ad-hoc committee comprising the members selected from among the Directors.
7. The Chairman of the Board of Directors, if it is deemed necessary to change the organizational structure, including the Board of Directors from the perspective of corporate governance, exercises leadership in the process necessary for such change and makes recommendations to the Board of Directors on the proposed change.

## Nomination Committee

### Article 11

1. The Nomination Committee comprises three (3) or more Independent Directors and Non-executive Inside Directors (directors who do not concurrently serve as Executive Officers), the majority thereof being Independent Directors.
2. The Nomination Committee sets out basic policies and regulations, etc., necessary for executing its duties.
3. The Nomination Committee is mainly responsible for deciding on the proposals concerning the election and dismissal of Directors, recommendations to the Board of Directors concerning the election and dismissal of Executive Officers, and recommendations to the Board of Directors concerning the appointment and dismissal of Directors with special titles and Executive Officers with special titles.
4. The Nomination Committee establishes a plan for the succession of the President and Representative Executive Officer. The plan specifies requirements for qualifications of the President and Representative Executive Officer based on the management strategies of the Company. When the incumbent President and Representative Executive Officer retires, the Nomination Committee makes recommendations to the Board of Directors with respect to the successor of the President and Representative Executive Officer based on the succession plan.
5. Members of the Nomination Committee work closely together to handle matters to be resolved by the committee, as a body possessing knowledge of corporate management, human resource development, personnel affairs/welfare and labor management, as well as matters to be recommended to the Board of Directors or the Representative Executive Officer.
6. The Chairperson of the Nomination Committee demonstrates his/her leadership in the committee's activities, including the chairing of Nomination Committee meetings. The



Chairperson is also responsible for exercising his/her leadership in gathering objective information on persons with management abilities from both inside and outside the Company. In addition, the Chairperson conducts interviews, etc., with the persons concerned to regularly update information on those with management abilities within the Company, and takes responsibility to regularly update effective information on human resources for the committee.

7. The Nomination Committee can hire external experts such as consultants at the cost of the Company without prior approval of the Board of Directors and Executive Officers, if it is deemed necessary for the activities of the committee.
8. The Company establishes a secretariat of the Nomination Committee with adequate staff and budget to enable the committee to appropriately fulfill its roles and functions.

## Audit Committee

### Article 12

1. The Audit Committee comprises three (3) or more Independent Directors and Non-executive Inside Directors (directors who do not concurrently serve as Executive Officers), the majority thereof being Independent Directors. Directors comprising the Audit Committee include two (2) or more members with adequate knowledge of finance and accounting.
2. The Audit Committee sets out the basic policies and regulations, etc., necessary for executing its duties.
3. The Audit Committee carries out audits to verify whether Executive Officers, Directors and employees, etc., of the Company or its subsidiaries (hereinafter “**Executive Officers, etc.**”) are in compliance with legal obligations and internal rules, and reports the progress and results of the audits to the Board of Directors. The Audit Committee also provides advice and recommendations to Executive Officers, etc., as appropriate.
4. The Audit Committee sets out basic policies and plans of audits based on progress in the development of internal control systems, in an effort to carry out efficient and effective audits in close coordination with the Internal Audit Division.
5. The Audit Committee sets out the “policy for the appointment and assessment of the External Independent Auditor,” and appropriately appoints the candidates for the position. The Audit Committee conducts an adequate assessment of the External Independent Auditor and verifies his/her independence and expertise required in each fiscal year.
6. The Audit Committee establishes a system for direct reporting to the Audit Committee as defined under Article 7, in order to facilitate the reporting of issues concerning a breach of compliance with laws and regulations, and other business-related ethical issues at the

Company and its subsidiaries.

7. Members of the Audit Committee ensure the effectiveness of audits conducted by the Audit Committee as a body possessing knowledge of finance, accounting and law, as well as auditing.
8. The Chairperson of the Audit Committee demonstrates his/her leadership in the committee's activities, including the chairing of Audit Committee meetings.
9. The Audit Committee, if necessary, can hire external experts such as attorneys, certified public accountants or consultants at the cost of the Company without prior approval of the Board of Directors and Executive Officers.
10. The Company establishes the Audit Committee Office as a secretariat that assists the committee with adequate staff and budget to enable the committee to appropriately fulfill its roles and functions.

#### Compensation Committee

##### Article 13

1. The Compensation Committee comprises three (3) or more Independent Directors and Non-executive Inside Directors (directors who do not concurrently serve as Executive Officers), the majority thereof being Independent Directors.
2. The Compensation Committee sets out basic policies and regulations, etc., necessary for executing its duties.
3. The Compensation Committee is mainly responsible for deciding on the individual compensation, etc., for Directors and Executive Officers, and making recommendations to the Board of Directors concerning the officers' compensation system of the Company as well as Group companies.
4. Members of the Compensation Committee work closely together to handle matters to be resolved by the committee as well as matters to be recommended to the Board of Directors, as a body possessing knowledge of corporate management and personnel affairs.
5. The Chairperson of the Compensation Committee demonstrates his/her leadership in the committee's activities, including the chairing of Compensation Committee meetings. The Chairperson of the Compensation Committee coordinates with the Chairperson of the Nomination Committee in the yearly assessment of the individual contribution by Executive Officers as the basis for determining the amounts of their performance-linked annual bonuses, as defined under Article 20, Paragraph 4, to ensure that the results of the assessments by the two committees are in agreement.
6. The Compensation Committee can hire external experts such as compensation consultants at the cost of the Company without prior approval of the Board of Directors and Executive

Officers, if it is deemed necessary for the activities of the committee.

7. The Company establishes a secretariat of the Compensation Committee with adequate staff and budget to enable the committee to appropriately fulfill its roles and functions.

#### Independent Directors' Meeting

##### Article 14

1. The Independent Directors' Meeting, a meeting structure comprising all Independent Directors (and Independent Directors only), is established as a forum for Independent Directors to freely discuss matters required to fulfill their responsibilities.
2. The Independent Directors' Meeting holds a meeting to review the performance of Chairman of the Board of Directors at least once a year without his/her presence.
3. The Independent Directors' Meeting can hire independent advisors specializing in areas including legal affairs, accounting and finance at the cost of the Company without prior approval of the Board of Directors and Executive Officers, if it is deemed necessary for its activities.
4. The Company establishes a secretariat with adequate staff and budget to support the activities of the Independent Directors' Meeting.

#### Directors

##### Article 15

1. Directors gather sufficient information for executing their duties, and actively express their opinions at the Board of Directors' meetings so as to ensure exhaustive discussions.
2. Directors are entitled to request explanations or reports, or the submission of internal materials from other Directors, Executive Officers and employees, whenever it is deemed necessary or appropriate.
3. Directors successfully execute their duties by spending sufficient time involved in Company and Group matters.
4. Directors fully appreciate their responsibilities based on the understanding of the relevant laws and regulations, Articles of Incorporation of the Company, the Board of Directors' Rules and other internal rules.

#### Independent Directors

##### Article 16

1. Independent Directors are mainly responsible, among their principal roles, for verifying and assessing as appropriate the business results of the Company and performance of Executive Officers in light of the management strategies or management plan set out by

the Board of Directors, and determining and expressing opinions on whether it is appropriate to delegate management responsibilities to the incumbent Executive Officers from the perspective of the common interests of shareholders.

2. The Lead Independent Director is elected from among the Independent Directors. The Lead Independent Director serves as the Chairperson of the Independent Directors' Meeting. In addition, the Lead Independent Director summarizes opinions of other Independent Directors as necessary, and reports to the Chairman of the Board of Directors and the President and Representative Executive Officer for further consultation.

Requirements, etc., for Directors and policies for nomination

#### Article 17

1. Directors shall have sufficient knowledge and experience in respective areas of management, as well as good character and high morals. Furthermore, Directors shall have broad-based insight and the ability to think logically, enabling them to make decisions based on the opinions of the members of the Board of Directors, as well as information from both inside and outside the Company.
2. The Company sets forth its views on diversity with regard to the composition of the Board of Directors, and selects candidates for Directors paying due attention to diversity based on its views.
3. The Company separately establishes, and discloses, the standards for independence of Independent Directors through the Board of Directors. Only those who meet such standards shall be the Company's Independent Directors.
4. The term of office for Independent Directors shall not exceed six (6) years, except in cases of special circumstance, under which the term can be extended, through reelection, to eight (8) years.
5. If an Independent Director of the Company is to concurrently serve as a director or a statutory auditor of other listed companies, such service shall not be demanding to the extent that it may impede the roles and functions expected of an Independent Director of the Company.
6. Policies for nomination including the standards and procedures for electing Directors are separately established by the Nomination Committee, and the election of the candidates for Directors is carried out based thereon.

Training for Directors

#### Article 18

1. The Company offers opportunities for newly elected Directors to gain knowledge of, and

- insight into, the subjects necessary to perform their responsibilities as Directors, including finance, legal affairs and corporate governance prior to, or immediately after, the election.
2. In an effort to promote understanding of the Group, the Company offers opportunities as appropriate for newly elected Independent Directors to gain knowledge of, and insight into, important matters such as the Group's management strategies and financial position, through a briefing by Executive Officers, etc., in charge of respective areas, and inspection tours, etc., at the Group's business sites prior to, or immediately after, the election.
  3. The Company provides Directors with opportunities for adequate training after their election as appropriate, including lectures by external experts.

#### Assessment on the effectiveness of the Board of Directors

##### Article 19

The Board of Directors conducts analysis and assessment on its effectiveness as a whole, and discloses a summary of the results thereof.

#### Compensation and other benefits for Directors, etc.

##### Article 20

1. The compensation standard for Directors is designed to provide the level of compensation commensurate with the capabilities, experience and roles of each Director, while encouraging the execution of their duties in line with the management philosophy and management strategies, as well as the level of supervision that contributes to the sustainable growth of the Company and the medium- to long-term enhancement of its corporate value.
2. The Company has adopted a system of compensation for Directors based on the roles of individual Directors on the Board of Directors as well as various committees, etc. Compensation for Directors comprises basic compensation and share-based payment involving stock options as long-term incentives. Furthermore, an additional allowance is paid to the Chairman of the Board of Directors, the Lead Independent Director and the Chairperson of each committee, in consideration of the scope of their roles and responsibilities, as well as the additional working hours required for executing their duties.

##### (1) Compensation system for Independent Directors

Compensation for Independent Directors, who are expected to fulfill their roles and responsibilities completely independent of the business execution of the Company, comprises basic compensation and share-based payment involving stock options that are not linked to performance.

##### (2) Compensation system for Non-executive Inside Directors

The Non-executive Inside Directors are appointed from among the officers and employees of the Company, who are capable of actively collecting information on the internal status of the Company based on their experience and knowledge. They are expected to engage in the monitoring of the business execution essential for the Board of Directors to fulfill its supervisory function, while appropriately supervising the execution of important matters based on their own insights, and thereby providing advice to ensure lawful and efficient business execution to the extent that they do not take part in decision-making. In light of the impact of the quality of supervision of business execution based on these roles and responsibilities on the yearly business results, their compensation comprises basic compensation and share-based payment involving stock options that are partially linked to performance.

(3) Compensation system for Executive Directors

The compensation system for Executive Officers is applied to Executive Directors, under which the compensation as Directors is not paid.

3. The compensation system for Executive Officers is designed to provide the level of compensation commensurate with the achievement of performance targets (if successfully achieved), while prompting business execution in line with the management philosophy and management strategies, with strong motivation towards contribution to the sustainable growth of the Company and medium- to long-term enhancement of its corporate value.
4. In line with the purposes as described in the preceding paragraph, compensation for Executive Officers comprises basic compensation based on special title, such as President and Representative Executive Officer and Senior Managing Executive Officer, a performance-linked annual bonus, and share-based payment involving stock options that are conditional on the achievement of business performance objectives set out in the medium-term management plan. The Company has adopted a compensation system that allocates a larger performance-linked portion compared to the basic compensation portion for Executive Officers in higher positions with greater responsibility, who are expected to play a more important role in achieving numerical targets in their business execution, with tougher responsibilities for business performance.
5. The Board of Directors sets out in the medium-term management plan management indicators such as return on invested capital (ROIC), along with their target values that should be used by the Compensation Committee for the performance assessment of the President and Representative Executive Officer as well as each Executive Officer, and discloses such information in a timely and appropriate manner.
6. The Company discloses compensation amounts, etc., paid to Directors, along with the relevant policies defined under this Article in an appropriate way.

## **Chapter 6 Dialogue with shareholders and investors**

### Constructive dialogue with shareholders and investors

#### Article 21

1. The Company recognizes the development of a long-term trusting relationship with shareholders and investors as one of the most important management matters. The Company provides appropriate corporate information necessary for shareholders and investors to make investment decisions, and strives to further strengthen the trusting relationship on a continuous basis by engaging in IR activities for enhancing its corporate value through constructive dialogue.
2. In the current framework, IR activities of the Company are, in principle, carried out by the department in charge of IR under the direct supervision of the President and Representative Executive Officer, as chief executive. In addition, Directors (including Independent Directors), Executive Officers and other senior executives arrange as appropriate opportunities for direct dialogue with shareholders and investors. The Company develops a framework for internally sharing information and knowledge gained through such dialogue with shareholders and investors, which shall be utilized for the management of the Company.
3. The Company separately determines and discloses the “IR Basic Policy” as a basic policy for developing the structure and initiatives for promoting constructive dialogue with shareholders and investors.