(Translation) This document has been extracted and 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.

Annual Securities Report

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

157th fiscal year
(From January 1, 2021 to December 31, 2021)

EBARA CORPORATION

(E01542)

Table of Contents

Annual Securities Report for the 157th fiscal year

[Cover]

[Document filed]	Annual Securities Report
[Applicable law]	Article 24, Paragraph 1 of the Financial Instruments and Exchange Act
[Filed to]	Director, Kanto Local Finance Bureau
[Filing date]	March 30, 2022
[Fiscal year]	The 157th fiscal year (January 1, 2021 to December 31, 2021)
[Company name]	Kabushiki Kaisha Ebara Seisakusho
[Company name in English]	EBARA CORPORATION
[Title and name of representative]	Masao Asami, President, Representative Executive Officer
[Address of head office]	11-1, Haneda Asahi-cho, Ota-ku, Tokyo
[Phone No.]	+81-3-3743-6111
[Name of contact person]	Shugo Hosoda, Executive Officer, Division Executive, Corporate Strategic Planning, Finance and Accounting Division
[Nearest place of contact]	11-1, Haneda Asahi-cho, Ota-ku, Tokyo
[Phone No.]	+81-3-3743-6111
[Name of contact person]	Shugo Hosoda, Executive Officer, Division Executive, Corporate Strategic Planning, Finance and Accounting Division
[Place available for public inspection]	EBARA CORPORATION Osaka Branch Office (1-6-20, Dojima, Kita-ku, Osaka-shi) EBARA CORPORATION Chubu Branch Office (2-22-7 Kikui, Nishi-ku, Nagoya-shi) Tokyo Stock Exchange, Inc. (2-1 Nihombashi Kabutocho, Chuo-ku, Tokyo)

Part 1. Company Information

I. Overview of Company

1. Key Performance Indicators

Consolidated Performance Indicators

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

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

Fiscal year		Japanese GAAP					
		152nd	153rd	154th	155th	156th	157th
Fiscal year-end		March 2017	December 2017	December 2018	December 2019	December 2020	December 2021
Net sales	(Millions of yen)	476,104	381,993	509,175	522,424	523,727	603,213
Ordinary income	(Millions of yen)	28,464	16,529	31,281	35,571	36,859	58,318
Profit attributable to owners of parent	(Millions of yen)	20,587	9,531	18,262	23,349	24,473	42,576
Comprehensive income	(Millions of yen)	17,429	13,473	12,493	25,043	24,113	53,882
Net assets	(Millions of yen)	277,509	284,788	286,778	291,827	304,470	326,119
Total assets	(Millions of yen)	588,457	612,919	591,582	595,239	621,578	700,985
Net assets per share	(Yen)	2,672.19	2,735.94	2,795.72	2,981.91	3,106.10	3,438.27
Net income per share	(Yen)	213.71	93.84	179.94	241.79	256.85	452.39
Diluted net income per share	(Yen)	201.53	93.32	178.99	240.57	255.82	451.07
Equity ratio	(%)	46.1	45.3	47.3	47.7	47.7	45.1
Return on equity	(%)	8.0	3.5	6.6	8.3	8.4	13.9
Price-earnings ratio	(Times)	17.0	45.8	13.7	13.8	13.1	14.1
Cash flows from operating activities	(Millions of yen)	33,816	44,157	34,610	26,720	64,234	68,549
Cash flows from investing activities	(Millions of yen)	(18,563)	(7,906)	(15,927)	(24,077)	(29,071)	(31,754)
Cash flows from financing activities	(Millions of yen)	(15,102)	11,296	(46,412)	(20,188)	(9,628)	(25,179)
Cash and cash equivalents at end of period	(Millions of yen)	90,683	139,102	110,556	93,351	120,544	136,488
Number of employees	(Persons)	16,317	16,219	16,556	17,080	17,480	18,372

Notes:
1. Figures for the 157th fiscal year have not undergone audits pursuant to the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.
2. The number of employees shown is the number of workers.
3. The Company conducted a consolidation of shares at a rate of one share for every five shares on October 1, 2016. Net assets per share, net income per share, and diluted net income per share are calculated on the assumption that this consolidation of shares was conducted at the beginning of the 152nd fiscal year.
4. The Company changed its fiscal year-end from March 31 to December 31 based on the resolution of the 152nd Ordinary General Meeting of Shareholders held on June 23, 2017. Accordingly, the 153rd fiscal year refers to the nine months from April 1, 2017 to December 31, 2017. The term of consolidation for the 153rd fiscal year is a nine-month period from April 1 to December 31 for the Company and consolidated subsidiaries that previously had a year-end of March 31, and a twelve-month period from January 1 to December 31 for consolidated subsidiaries that previously had a year-end of December 31. Return on equity and price-earnings ratio for the 153rd fiscal year are calculated based on the nine-month financial results.
5. The Company has adopted “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) and other standards from the beginning of the 155th fiscal year. Therefore, the figures for the 154th fiscal year are those calculated after retrospectively applying the accounting standard and other standards.
6. The Company has adopted “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018) and “Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018) from the beginning of the 156th fiscal year.

2. History

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

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

3. Description of Business

The Ebara Group (the “Group”), consisting of EBARA Corporation (the “Company”), 103 subsidiaries (all of which are consolidated subsidiaries), three associates and one jointly controlled entity, is primarily engaged in manufacturing, sales, construction, maintenance, and services in the fields of Fluid Machinery & Systems, Environmental Plants, Precision Machinery, and others.

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

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

Notes: 1. The Chinese character for pumps is written as water under stone.
2. The company is an associate accounted for using the equity method.

4. Subsidiaries and Associates

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

Name	Address	Share capital or investments in capital (Millions of yen)	Business description	Percentage of the Company's voting rights (%)	Description of relationship
EBARA MACHINERY ZIBO CO., LTD.	Shandong, China	Thousands of U.S. dollars 41,000	Fluid Machinery & Systems Business	100.0 (100.0)	・One officer concurrently serves as an officer of the Company. ・Buys pumps from the Company ・Sells pump parts and components to the Company ・Borrows funds from the Company
Ebara Machinery (China) Co., Ltd.	Beijing, China	Thousands of U.S. dollars 61,938	Fluid Machinery & Systems Business	100.0	・One officer concurrently serves as an officer of the Company. ・Buys pumps from the Company ・Sells pump parts and components to the Company ・Borrows funds from the Company

Name	Address	Share capital or investments in capital (Millions of yen)	Business description	Percentage of the Company's voting rights (%)	Description of relationship
EBARA GREAT PUMPS CO., LTD. (The Chinese character for pumps is written as water under stone.)	Zhejiang, China	Thousands of U.S. dollars 11,000	Fluid Machinery & Systems Business	51.0	・One officer concurrently serves as an officer of the Company. ・Buys pumps from the Company ・Sells pump parts and components to the Company
Ebara Engineering Singapore Pte. Ltd.	Singapore	Thousands of Singapore dollars 6,625	Fluid Machinery & Systems Business, Precision Machinery Business	100.0	・Buys pumps from the Company ・Sells component devices and semiconductor manufacturing equipment of the Company and offers after-sales service for such products ・Borrows funds from the Company
Ebara Pumps Europe S.p.A.	Trento, Italy	Thousands of Euro 22,400	Fluid Machinery & Systems Business	100.0	・Sells pumps to the Company
Elliott Company (Note 3)	Pennsylvania, U.S.A.	Thousands of U.S. dollars 1	Fluid Machinery & Systems Business	100.0 (100.0)	・Three officers concurrently serve as an officer of the Company. ・Sells compressors and turbines to the Company ・Borrows funds from the Company ・Has its debts guaranteed by the Company
Elliott Ebara Singapore Pte. Ltd.	Singapore	Thousands of Singapore dollars 340	Fluid Machinery & Systems Business	100.0 (100.0)	
EBARA REFRIGERATION EQUIPMENT & SYSTEMS (CHINA) CO., LTD.	Shandong, China	1,888	Fluid Machinery & Systems Business	100.0 (40.0)	・One officer concurrently serves as an officer of the Company.
Vansan Makina Sanayi ve Ticaret A.Ş.	Izmir, Turkey	Thousands of Turkish lira 5,350	Fluid Machinery & Systems Business	100.0 (100.0)	・One officer concurrently serves as an officer of the Company.
EBARA QINGDAO CO., LTD.	Shandong, China	3,150	Environmental Plants Business	100.0 (100.0)	
Ebara Technologies Inc.	California, U.S.A.	Thousands of U.S. dollars 44,560	Precision Machinery Business	100.0 (100.0)	・Sells component devices and semiconductor manufacturing equipment of the Company, offers after-sales service for such products and manufactures components
Shanghai Ebara Precision Machinery Co., Ltd.	Shanghai, China	495	Precision Machinery Business	100.0	・Sells component devices and semiconductor manufacturing equipment of the Company and offers after-sales service for such products
Ebara Precision Machinery Korea Inc.	Peongtaek, South Korea	Millions of Won 5,410	Precision Machinery Business	100.0	・One officer concurrently serves as an officer of the Company. ・Sells component devices and semiconductor manufacturing equipment of the Company, offers after-sales service for such products and manufactures components
Ebara Precision Machinery Taiwan Incorporated	Taipei, Taiwan	Thousands of TWD 330,000	Precision Machinery Business	100.0	・Sale and after-sales service for the Company's component devices and semiconductor manufacturing equipment, and manufacture of component devices
Ebara Precision Machinery Europe GmbH	Hessen, Germany	Thousands of Euro 11,145	Precision Machinery Business	100.0	・Sells component devices and semiconductor manufacturing equipment of the Company and offers after-sales service for such products
77 other companies					

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

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

2. The figures in parentheses for the "Percentage of the Company's voting rights" are the percentages of the voting rights which the Company holds indirectly.

3. Elliott Company generates more than 10% of consolidated revenue (excluding inter-company revenue). The principal profit and loss information, etc. of the company prepared in accordance with IFRS is as follows:

Revenue (including inter-company revenue)	67,220 million yen
Profit before tax	4,829 million yen
Profit	3,164 million yen
Total equity	25,167 million yen
Total assets	75,149 million yen

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

5. Employees

(1) Information about the Group

As of December 31, 2021

Segment	Number of employees
Reportable segments	
Fluid Machinery & Systems Business	11,870
Environmental Plants Business	2,714
Precision Machinery Business	2,789
Total of reportable segments	17,373
Corporate departments and others	999
Total	18,372

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

(2) Information about the Reporting Company

As of December 31, 2021

Number of employees	Average age (years old)	Average length of service (years)	Average annual salary (yen)
4,103	43.9	17.0	7,570,528

Segment	Number of employees
Reportable segments	
Fluid Machinery & Systems Business	2,223
Environmental Plants Business	12
Precision Machinery Business	1,071
Total of reportable segments	3,306
Corporate departments and others	797
Total	4,103

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

(3) Information about Labor Union

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

Company name	Labor union	Number of members	Superior labor union
Ebara Corporation	Ebara Joint Labor Union	2,283	None
Elliott Ebara Turbomachinery Corporation	Ebara Joint Labor Union	269	None
EBARA FAN & BLOWER CO., LTD.	Ebara Fan & Blower Labor Union	200	None
EBARA FIELD TECH. CORPORATION	Ebara Field Tech. Labor Union	102	None

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

II. Business Overview

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

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

(1) Management Policy

Long-term Vision: E-Vision 2030

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

Looking ahead at the next 100 years of human civilization and the global environment, we can foresee numerous challenges facing humanity, among which those of particular concern include abnormal weather and natural disasters intensifying due to worsening climate change, storm surges due to rising sea levels, land erosion, and depletion of food and water resources. In addition, the technologies of the information age are expected to evolve even further, bringing drastic change to current lifestyles and the digital world as well as higher demand in semiconductors underpinning the digital society, and pushing the limits of semiconductor manufacturing technologies.

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

E-Vision 2030 illustrates our vision for the Group a decade from now and the value creation story that will serve as the roadmap toward realizing this vision. Under the slogan of "Technology. Passion. Support Our Globe," the Vision sets out five material issues (EBARA's materiality) for the Group to address and improve toward 2030. We aim to further our contributions toward the SDGs through the pursuit of solutions to our identified five material issues to contribute to the creation of a sustainable society, while simultaneously increasing the social/environmental value and economic value we generate. We believe this will earn us greater corporate value and recognition as an excellent global company.

5 Material Issues (Materiality)

(i) Contribute to the Creation of a Sustainable Society

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

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

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

(iii) Conduct Comprehensive Environmental Management

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

(iv) Promote Working Environments That Encourage Challenge

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

(v) Enhance Corporate Governance

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

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

The Group has formulated E-Plan 2022, a three-year medium-term management plan that started in fiscal 2020. This plan comprises strategies and issues to be addressed for those three years based on backcasting from what we want to achieve in the next decade, as indicated in E-Vision 2030, and on reflection on the previous medium-term management plan, E-Plan 2019, to identify outstanding issues.

Review of the Previous Medium-term Management Plan, E-Plan 2019

E-Plan 2019 aimed to thoroughly improve the profitability of all businesses to allow the Company to further develop into an industrial machinery manufacturer that expands and grows business on a global scale. The key message of this period was, "Unlimited Challenge toward Growth," and each business segment implemented various measures in pursuit of this goal. The review of E-Plan 2019 reveals that three main issues remain unresolved. These are: (1) strengthening of the revenue base, (2) the enhancement of service and support (S&S) business, and (3) the creation of new businesses. We will continue to prioritize and address these issues under the E-Plan 2022.

Current Medium-term Management Plan: E-Plan 2022

We have positioned E-Plan 2022, the first three-year mid-term management plan under E-Vision 2030, as the time to "Reconstruct the foundations of growth," and lay out the following four basic policies to be implemented in the next three years.

(i) Strive for Growth

Create and cultivate new businesses and expand existing businesses further into the global market.

(ii) Improve Profitability of Existing Businesses

Transform business structures to strengthen revenue base and increase S&S revenue in all businesses.

(iii) Refine Management and Business Infrastructure

Proactively implement digital transformation (DX) technologies to facilitate swifter management and further emphasize ROIC management.

(iv) Enhance ESG-focused Management

Address evolving environmental issues, foster bonds with society, and enhance governance practices.

Target Performance Indicators

In E-Plan 2022, we have positioned return on invested capital (ROIC) and the operating profit ratio as our key performance indicators for the following reasons:

(i) ROIC

With a strong focus on achieving returns in excess of our cost of capital over the medium to long term while effectively utilizing invested capital, we will divide our operating segments into two groups: "Growth businesses" and "Profitability improvement businesses," to execute aggressive operating segment specific strategies.

(ii) Operating Profit Ratio

The review of E-Plan 2019 reveals that the most pressing issue is to strengthen our revenue base by enhancing the S&S business and other measures, and based on this recognition, we will work to improve the profitability of our businesses.

The EBARA Group has decided to adopt the International Financial Reporting Standards (IFRS) for its consolidated financial statements and related materials in place of Japanese GAAP (JGAAP), in order to improve the international comparability of its financial information. The impact of the IFRS transition on the numerical targets of E-Plan 2022, which was already announced in February 2020, is as follows.

Key Performance Indicators (KPIs)

Item	E-Plan2022 Targets	
	Japanese GAAP	IFRS (new)
Return on invested capital (ROIC)	8.0% or more	7.6% or more
Operating profit ratio	8.5% or more	8.5% or more

Target Achievement Indicators

Item	E-Plan2022 Targets	
	Japanese GAAP	IFRS (new)
Return on equity (ROE)	11.0% or more	11.2% or more
Debt-to-equity ratio	0.3-0.5 times	0.4-0.6 times
Operating profit ratio by business		
Fluid Machinery & Systems Business	7.0% or more	No change due to immaterial impact
Pumps Business	6.5% or more	
Compressors and Turbines Business	8.0% or more	
Chillers Business	5.0% or more	
Environmental Plants Business	9.5% or more	
Precision Machinery Business	13.0% or more	

Growth Investment

Item	E-Plan2022 Targets (cumulative total for 3 years)
Capital investment	Approximately ¥100 billion
R&D investment	Approximately ¥40 billion

Shareholder Returns

Item	E-Plan2022 Targets
Consolidated dividend payout ratio	35.0% or more
Ratio of dividends to equity attributable to owners of parent (consolidated)	2.0% or more

(3) Management Environment

The business environment assumed in the formulation of E-Plan 2022 is as follows.

	Market/Regional Trend (Main markets only)			Factors of Market Fluctuation
Growing Business				
Standard Pumps Business	Construction equipment	Japan	↘	Domestic demand for construction equipment
		Overseas	↗	Growing GDP
PM Business	Semiconductor	Japan/Overseas	↗	Trend of CAPEX in the market
Improving Profitability				
Custom Pumps Business	Public works	Japan	→	Finance in national and local governments
	Oil and gas, water use, electric power	Japan/Overseas	→	Crude oil prices, trend of CAPEX in O&G market, decarbonization
	Emerging countries	Overseas	↗	Growing GDP
CT Business	Oil and gas (downstream)	Japan/Overseas	→	Crude oil prices, trend of CAPEX
Chillers Business	Construction equipment	Japan	↘	Domestic demand for construction equipment
	China	Overseas	→	Growing GDP
EP Business	Waste treatment facilities	Japan	→	Finance in national and local governments

In the table, the arrows in “Market/Regional Trend” indicate market growth trends.

(4) Issues to be Addressed

Positioning E-Plan 2022 as the time to “Reconstruct the foundations of growth,” we have identified the following issues to be addressed with priority over the next three years under the aforementioned market environment.

- Identify and match both internal and external technologies/know-how with market needs to create new businesses
- Increase profits by reevaluating and optimizing our business portfolio
- Improve management efficiency and speed by taking measures to improve global operations
- Conduct business operations in line with the ideals of stakeholder capitalism

To address these issues, we have set management strategies based on the following five perspectives. Each business will formulate and enact plans aimed at accomplishing these targets.

(i) New Business

We will establish marketing and R&D organizations to identify and pursue new needs and seeds, and globally examine from a company-wide perspective what products and services will meet those needs and whether our technologies and business infrastructure match the identified market needs. In this way, we will bring new solutions to customers.

For creating and cultivating new businesses, we will not stick to doing so on our own but will actively and flexibly utilize means such as partnerships with other companies, including external research institutions and venture companies, as well as investments and acquisitions.

Specifically, we will work on solutions for inland recirculating aquaculture to solve the global food problems and for bioprocesses that are expected to grow rapidly in the future. We will also engage in new businesses in the field of carbon neutrality, including the chemical recycling of waste plastics.

(ii) Existing Business

In addition to the existing major markets, we will search for markets and areas where our products and services provide added value and that leverage our strengths from a market-in perspective, then consider and implement business models appropriate to such markets, where we work to improve and develop products and provide new services to match customer needs. When executing initiatives, we aim to maximize synergies through collaboration among Operating segments, in addition to individual business efforts, with a focus on speeding up operations.

i) Enhance S&S Business

We will build a system to facilitate the provision of optimal services to each market, country, region, and customer by considering the optimal approach to achieve economic rationality on a global basis across business lines.

Specifically, we will integrate or coordinate organizations in S&S business that handle different products but share the same major markets (such as custom pumps, and compressors and turbines) to create synergies by leveraging mutual strengths such as technological capabilities and global networks.

ii) Execute Aggressive Operating Segment Specific Strategies

Based on our business portfolio, we divide our operating segments into “Growth businesses,” for which we can expect continued growth going forward, and “Profitability improvement businesses,” which operate in mature major markets or are having problems with profitability, and set strategies in accordance with their status. We will invest for growth with a focus on the Standard Pumps Business and the Precision Machinery business as a growth business, while placing the highest priority on securing profitability in the Custom Pumps Business and the Compressors and Turbines business among the profitability improvement businesses.

iii) Strengthen Development Capabilities to Create Unparalleled Products

We will continue to develop products with competitive advantages. We thoroughly examine and define the required and optimal performance and quality of products, and delivery requirements in the target markets, and sell products that satisfy those requirements at a price that maximizes profit. Such products in the Pumps Business include those that are more energy efficient, smaller, lighter, and smarter.

iv) Strengthen Procurement Capabilities

In order to reduce procurement costs, we will strengthen our global procurement capabilities and enhance optimal region-based procurement.

(iii) Regional Strategy

We separate strategies for the global market, where economic growth is expected along with population growth, and the mature Japanese market, and implement measures accordingly.

i) Global Market

In order to expand sales in regions and countries where growth is expected in terms of population, economy, specific industries and such, we will invest in facilities and M&As while actively allocating resources to such regions to bolster products and services and secure human resources.

With regard to the Standard Pumps business, we will increase coverage of business by establishing more than ten bases, and in particular, we will enhance our presence in the African market, which is untapped and is expected to grow in population and economy going forward. In addition, we will accurately grasp regional needs and promote product development in regional bases. In the Precision Machinery business, we will ensure that we enter the growing Chinese market, while in other businesses, we will expand our business in the Asian region, particularly in China and India.

In the areas of marketing, production, procurement, sales, service and logistics, we will build an optimal global value chain by sharing and utilizing business bases and functions regardless of business categories.

ii) Domestic Market

On the premise that the Japanese market will mature, we will work to improve operational efficiency and maximize profits by securing more orders in service businesses, while taking the lead in utilizing advanced information technologies such as IoT and AI.

(iv) Strengthen Capitals (Resources)

We will evolve and strengthen the six capitals, namely, human, manufacturing (buildings and facilities), financial, intellectual (technologies and patents), social & relationships (SCM and agents), and nature & environment required for business growth to better invest in adaptions to the changing business environment and global business expansion.

i) Strengthen ROIC/Portfolio Management

To evaluate and manage the ROIC-WACC (weighted average cost of capital) spread and S&S sales as key performance indicators, we will improve the accuracy and speed in calculating them (and other key indicators obtained by tree decomposition) by business, group, and on a global basis. In addition, we will manage balance sheets more efficiently in all businesses by focusing on trade receivables and inventories to improve invested-capital efficiency, while implementing portfolio management involving operating segments specific investments and other such actions.

ii) Manufacturing/Technology/Information Strategy

In our efforts to improve the efficiency of business operations for growth, we will leverage data and digital technology to transform products, services, and business models on a global scale, establish our operational infrastructure through the company-wide introduction of enterprise resource planning (ERP) to support such transformation, and build globally optimized operational flows and rules.

In the area of manufacturing, we will systematize the know-how of automated factories and roll out such capabilities into domestic and overseas group companies.

iii) Human Resources Strategy

In order to enhance the effectiveness of the personnel system reformed during E-Plan 2019, we will expand the system globally, and promote optimal allocations of personnel, regardless of seniority. We will introduce a global talent management system as the foundation of this system, and build it into a platform for fostering and optimally placing talented people in roles where they can contribute to their full potential regardless of nationality, gender or other factors. In addition, we will promote the diversification of our human resources through increasing mid-career hires such as highly specialized personnel and facilitating greater global mobility, and will recruit diverse human resources from around the world, and foster competitive, ambitious human resources who are unafraid of taking on challenges.

We will put in place measures such as workplace safety management, stress management, and health promotion measures to create a workplace environment where employees can work safely and securely and achieve higher performance.

(v) Refine ESG-focused Management

With regard to ESG management, which has been enhanced to some degree during E-Plan 2019, we will continue to make a sustainable contribution to solving social issues, including the SDGs, through our business, and simultaneously increase the social, environmental, and economic value we generate.

i) Take Aim at Environmental Issues (E)

Based on the recognition that our greatest contribution to environmental issues is to reduce greenhouse gas emissions by improving the energy efficiency of our products and services in each of our businesses, we will strive to strengthen and promote these efforts. At the same time, we will consider chemical recycling and response to the hydrogen society. Meanwhile, we will conduct systematic efforts to identify and minimize the environmental impacts of our business operations on a global scale.

ii) Foster Bonds with Society (S)

We will create and provide social value by delivering safe, reliable, and convenient products and services through our business operations. While bearing in mind the need to foster bonds with society, through contributing to the advancement of local communities and respecting human rights throughout our business operations, we will make a clear distinction between the social value of our products/services and our philanthropy activities and continue to support various cultural facilities and so on.

iii) Enhance Governance (G)

We will improve the feedback loop between the outcome goals and execution status of our medium- to long-term management policy led by the Board of Directors to implement a more effective system. We will also enhance group governance and risk management in line with the globalization of our operations.

(5) Impact of COVID-19

Although the outlook for the global economy remained uncertain due to the prolonged spread of COVID-19, there were movements towards recovery through improving vaccination coverage. In Japan, economic activities were partially restricted following the issuance of the state of emergency and strong prevention measures in some major cities. However, external demand continued a moderate increase and there were signs indicating a bottom out in capital investment. There were difficulties in procuring materials due to the lockdown in Southeast Asia, a shortage of semiconductors, and trends of high material prices and rising logistics costs.

However, the impact on our business performance has been limited due to sales price adjustments, implementation of cost reduction measures, and strengthening of supply chain management. Although there is no telling when COVID-19 will be brought under control, its negative impact on the Group has been limited at this point because our business supports social and industrial infrastructure and that is essential for a digital society. In order to respond to customer needs in a timely and appropriate manner, it is important that we continue our business operations while thoroughly implementing infection prevention measures, and stably provide products and services.

The management environment, risks and opportunities, and issues to be addressed for each segment are as follows.

Fluid Machinery & Systems Business

With the resumption of economic activities, the construction equipment market is showing signs of a global recovery in demand. In the oil and gas market, crude oil prices climbed back to pre-pandemic levels, showing signs of a lull. In such circumstances, orders for new projects remained strong, mainly in China, and there were movements in some projects in the Middle East and India. The major markets are for the social and industrial infrastructure and remained firm. The Group's overseas bases were affected by temporary restrictions on operations due to the lockdown caused by the reemergence of COVID-19, mainly in Southeast Asia. However, all bases have recovered to normal operating levels, while taking thorough measures to prevent infection among employees. We will need to further accelerate the use of digital technologies such as XR including VR and AR and web conferencing tools to respond remotely, while securing the supply chain and strengthening the support system for supplying products and providing human resources among group bases.

Environmental Plants Business

Since the construction and operation of waste treatment facilities, our main business, mainly caters to public sector demand in Japan, the impact of COVID-19 on this market has been minimal. In the construction work and the facility operation and management that the Group undertake, the key issue is to ensure stable business continuity while thoroughly preventing infections. To this end, we will minimize the movement of related personnel at each construction worksite and management office by utilizing remote monitoring systems and remote conference systems to thoroughly manage their health.

Precision Machinery Business

With the global acceleration of remote work and digital transformation, the semiconductor industry is experiencing a rapid increase in capital investment as customer factories are operating at higher rates. Meanwhile, the impact of the trade conflict between the U.S. and China needs to be closely watched. When selling equipment, we usually dispatch engineers from Japan to set up equipment at customers' sites. However, as restrictions on travel from Japan to overseas are becoming stricter, we are making the most of our overseas bases to minimize the impact of such restrictions. Going forward, we will continue to strengthen the S&S structures and human resource development at each of our bases in order to minimize the impact of COVID-19 on production and the supply chain and to enhance field support to bring it closer to customers. In this way, we aim to contribute to the globally booming semiconductor market with surging demand during and post-COVID-19 era.

2. Risk Factors

When establishing the E-Vision 2030 long-term vision and the E-Plan 2022 medium-term management plan, the Group performed analyses of the risks that may occur during the course of its business through a scenario planning approach accounting for medium- to long-term changes in social trends and operating environment conditions. In addition, regular risk assessments are carried out Groupwide with regard to the current risks surrounding the Group by analyzing the likelihood of occurrence, the degree of impact, and the residual risk after countermeasures from among the risks that can be assumed in light of our business characteristics.

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

The risks related to COVID-19 and our response to it are described in detail in "(2) Response to COVID-19."

(1) Risks That May affect the Business Performance and Financial Position of the Group

(i) Long-term Fluctuating Risks

	Item	Risks	Countermeasures
1	Global environmental and climate change	Operating environment changes due to phenomena such as the following: • Changes in economic conditions due to global warming • Intensification of typhoons, forest fires, and other natural disasters	• Projection of risks and opportunities and formulation of countermeasures based on diverse, long-term scenario analyses • Preparation of BCPs and implementation of drills for responding to natural disasters
2	Accelerated globalization	• Unexpected losses and reputation damages stemming from a lack of management insight and expertise pertaining to overseas transactions and bases	• Exhaustive Group governance and internal control measures • Global human resource development programs
3	Shrinking workforce in Japan	• Lack of human resources for continuing manufacturing operations and other supply chain risks • Product defect risks resulting from an inability to effectively transmit techniques and expertise to new employees	• Global human resource recruitment and supply chain optimization • Translation of expertise into explicit knowledge stored within organizations rather than solely in the minds of people
4	Information security	• Possible suspension of important operations or services, leakage of confidential or personal information, and destruction or falsification of important data due to such unforeseen circumstances as external cyber-attacks, human negligence at the Company or its contractors, natural disasters, or infrastructure failures	• Establishment of an information security management system within the Group • Establishment and application of information security regulations, and implementation of employee education and training • Creation of security measures for software and devices

(ii) Short-term Volatile Risks

	Item	Risks	Countermeasures
1	Political factors	• Unexpected restrictions and expenses in business activities due to impacts on economic and trade conditions stemming from political factors such as intensification of trade friction between the United States and China, conflict in the Middle East, and the situation in Ukraine	• Development of global supply chains and value chains accounting for risks
2	Sudden natural disasters and pandemics	Risks of adverse impacts to lives of employees and others, business continuity, or profit due to the following: • Earthquakes, volcanic eruptions, and other natural disasters • Fast-spreading pandemics	• Pre-assessment and preparation of BCPs by utilizing global network • Promotion of efficient and flexible work styles • Implementation measures to combat pandemics and prevent infection through coordination with industrial physicians
3	Foreign exchange rate fluctuations	• Effects of foreign exchange rate fluctuations on business performance	• Appropriate foreign exchange risk hedging measures, including exchange contracts

(iii) Risks by Major Markets and Businesses

<table>
<tr><th></th><th>Item</th><th colspan="2">Risks</th><th>Countermeasures</th></tr>
<tr><td rowspan="2">1</td><td rowspan="2">Oil and gas markets:
Fluid Machinery & Systems Business (pumps business, compressors and turbines business)</td><td colspan="2">• Changes in the demand trends of customers due to the transition to a decarbonized society</td><td>• Promotion of businesses related to next-generation energy such as hydrogen energy</td></tr>
<tr><td>• Occurrence of drastic changes in demand due to oil price fluctuations</td><td rowspan="2">• Pressure on earnings arising from surplus production capacity or other factors attributable to drops in order volumes or sales prices amid recessions
• Risk of diminished market share due to lack of production capacity at EBARA and across the supply chain in times of strong economic conditions</td><td rowspan="2">• Formulation and execution of investment plans and resource management with high prediction accuracy made possible through confirmation of leading indicators, etc.
• Reduction of break-even point through lead time shortening, design and manufacturing automation, and other streamlining measures
• Ensuring stable profits through a higher proportion of S&S business</td></tr>
<tr><td>2</td><td>Semiconductor market:
Precision Machinery Business</td><td>• Major changes in the investments and operations of customers due to the trends in semiconductor demand</td></tr>
<tr><td>3</td><td>Domestic construction equipment market:
Fluid Machinery & Systems Business (pumps business, chillers business)</td><td colspan="2">• Deterioration of earnings following market contraction caused by reduced demand for construction equipment due to domestic population decline</td><td rowspan="2">• Competitive edge maintenance through differentiation of product development, focus on S&S operations, and cost reductions by means of operational streamlining
• Shifting of resources toward global markets
• Ongoing compliance education and internal audits</td></tr>
<tr><td>4</td><td>Domestic public infrastructure market:
Environmental Plants Business</td><td colspan="2">• Reduced orders attributable to the consolidation of public facilities due to domestic population decline
• Lack of plant operation staff due to workforce contraction
• Compliance issues, including involvement in government-initiated bid collusion</td></tr>
</table>

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

(2) Response to COVID-19

To prevent the spread of COVID-19 and ensure the Group’s business continuity, we have established the COVID-19 Infection Control Headquarters, headed by the President. We are continuously implementing preventive measures, including workplace vaccination of employees, their family members, subcontractors, etc. and, on a weekly basis, monitoring the status of infections within the Group. We are also practicing new work styles during the pandemic. In addition, the Board of Directors oversees countermeasures from a medium- to long-term perspective while keeping abreast of the status of infection and initiatives. Each of our operating sites is working to prevent the spread of COVID-19 in accordance with the policies of the relevant government and region, while continuing business activities.

We have set the work-from-home rate at around 70% and have also set up satellite offices and staggered commuting to avoid crowded workplaces for employees coming to work. At the manufacturing sites, we maintain normal production activities by implementing a shift system and limiting the number of employees while thoroughly managing the health of employees and contractors, including checking body temperature when they enter the sites. We also maintain normal activities at sites for the construction and maintenance of social infrastructure in light of their social significance.

As a provider of products and services to society and industry, the Group prioritizes the health and safety of our employees, customers, and other stakeholders as well as the prevention of the spread of infection, and will continue its business activities to minimize any impact on our customers’ businesses and daily lives, while taking ongoing measures to prevent the spread of infection.

(For risks and opportunities by business segment, please refer to “II. Business Overview 1. Management Policy, Business Environment, and Issues to be Addressed (5) Impact of COVID-19.)

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

* The Group has adopted IFRS from the fiscal year ended December 31, 2021 in place of Japanese JGAAP and reclassified the figures for the previous fiscal year under IFRS for comparative analysis.

For the fiscal year ended December 31, 2021, the overview of the financial position, operating results, and cash flows (hereinafter “operating results”) of the Group, and views and issues analyzed/discussed with regard to the status of operating results from the management’s perspective, are as follows.

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

(1) Business Performance

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change	Change (%)
Orders received	511,221	771,483	260,261	50.9
Revenue	522,478	603,213	80,734	15.5
Operating profit	37,566	61,372	23,806	63.4
Operating profit ratio (%)	7.2	10.2	–	–
Profit attributable to owners of parent	24,236	43,616	19,380	80.0
Basic earnings per share (Yen)	254.36	463.44	209.08	82.2

During the fiscal year ended December 31, 2021, the global economy continued to pick up due to the spread of vaccinations and other factors, although uncertainty remained due to the prolonged impact of COVID-19. In the Japanese economy, economic activities were restrained in some areas, mainly in major metropolitan areas, due to the implementation of priority measures such as the declaration of emergency situations and the prevention of spreading of COVID-19. However, demand gradually increased and capital investment showed signs of picking up.

In the oil and gas market, the Group's primary market, crude oil prices recovered to levels prior to the spread of the COVID-19, and some projects moved. In the semiconductor market, demand remained at a high level, and customers' capital investment continued to expand. The construction equipment market saw a recovery from the impact of the COVID-19. In addition, Japan's public investment related to national resilience remained firm.

Under these circumstances, orders received for the fiscal year ended December 31, 2021 increased from the previous fiscal year in the Fluid Machinery & System (“FMS”) Business due to a recovery in demand mainly in China, compared to the previous fiscal year, when the global economy was stagnant due to the impact of the spread of the COVID-19. Orders received in the Environmental Plants (EP) Business significantly increased from the previous fiscal year as orders for several new large-scale projects for waste treatment facilities were placed. In the Precision Machinery (PM) Business, it remained robust due to increased capital investment by semiconductor manufacturers as a result of strong demand for semiconductors in areas such as 5G, AI, and data centers, as well as the continued trend of customers placing orders ahead of schedule against the backdrop of a global supply shortage of parts. Revenues increased in all companies compared to the previous fiscal year due to a high level of orders received.

In terms of profits, operating income improved significantly due to the continued improvement in profitability in the FMS Business, higher revenue in PM Business, and the impact of the depreciation of the yen. Higher raw material prices and logistics costs, as well as prolonged lacks of parts, have had a broad impact on the supply chain. However, the Group worked to minimize the impact of its business performance by passing on higher sales prices, implementing cost reduction measures, and strengthening supply chain management.

As a result, in the Fiscal Year ended December 31, 2021, consolidated orders received amounted to ¥771,483 million (an increase of 50.9% year-on-year), revenue amounted to ¥603,213 million (an increase of 15.5% year-on-year), operating income amounted to ¥61,372 million (an increase of 63.4% year-on-year),profit attributable to owners of parent amounted to ¥43,616 million (an increase of 80.0% year-on-year). All of them replaced the past highest records.

Operating results by operating segment are as follows.

(Millions of yen)

Segment	Orders received			Revenue			Segment profit		
	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change (%)	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change (%)	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021	Change (%)
Fluid Machinery & Systems	301,163	354,810	17.8	313,218	336,980	7.6	19,801	24,793	25.2
Environmental Plants	61,913	129,496	109.2	67,418	71,824	6.5	6,869	5,632	(18.0)
Precision Machinery	146,657	285,401	94.6	140,352	192,791	37.4	11,626	28,035	141.1
Total of reportable segments	509,734	769,708	51.0	520,989	601,596	15.5	38,297	58,461	52.6
Others	1,487	1,775	19.4	1,489	1,617	8.6	(637)	1,168	–
Adjustment	–	–	–	–	–	–	(93)	1,743	–
Total	511,221	771,483	50.9	522,478	603,213	15.5	37,566	61,372	63.4

Fluid Machinery & Systems Business

In the fiscal year ended December 31, 2021, orders received amounted to ¥354,810 million, up ¥53,646 million year on year; revenue amounted to ¥336,980 million, up ¥23,761 million year on year; and operating profit amounted to ¥24,793 million, up ¥4,992 million year on year. Orders received and operating profit achieved a record-high level.

The Pumps Business recorded a year-on-year increase in revenue and profit with a recovery in global demand in the Standard Pumps Business mainly for the construction equipment market. The Turkish pump manufacturer that the Company acquired in April 2021 also contributed to the operating results through cross-selling, etc. The Custom Pump Business for oil and gas market secured an order for a new petrochemical plant in China and an order for a large-scale project in the Middle East. Operating profit of the Pumps Business increased year-on-year, driven by the continuous initiatives for profitability improvement in the Custom Pumps Business in addition to an increase in revenue.

The Compressors and Turbines Business received orders of more than ¥100 billion as both the Product Business and the S&S business received more orders than the previous fiscal year. In the Product Business, there were progress observed in investment projects by customers in China, the Middle East, and India. Relaxed mobility restriction, which had been implemented as a countermeasure to prevent the spread of COVID-19, increased the demand for the Service & Support Business. Revenue declined in the Product Business due to a decrease in the backlog of orders received at the beginning of the fiscal year. However, operating profit increased due to improvement in profitability driven by selective order taking and cost reductions.

In the Chillers business, orders received and revenue were strong in the Chinese market. However, due to rising raw material prices and sluggish demand for service and support in domestic market, it recorded higher sales and lower profit than the previous fiscal year.

Environmental Plants Business

In the fiscal year ended December 31, 2021, orders received amounted to ¥129,496 million, up ¥67,583 million year on year. Revenue amounted to ¥71,824 million, up ¥4,405 million year on year; and operating profit amounted to ¥5,632 million, down ¥1,237 million year on year. Orders received significantly increased from the previous fiscal year, thanks to secured orders for several new large-scale projects for waste incineration facilities. Revenue increased due to progress made in constructions in EPC* projects. In terms of profit, there was a decline in profitability due to decreased proportion of operation & maintenance in sales and declining profitability in some EPC projects. Fixed costs increased partly due to an increase in associated costs caused by research and development activities aimed for the demonstration of chemical recycling technology.

* EPC: Engineering, procurement, and construction of plants

Precision Machinery Business

In the fiscal year ended December 31, 2021, orders received amounted to ¥285,401 million, up ¥138,744 million year on year; revenue amounted to ¥192,791 million, up ¥52,439 million year on year; and operating profit amounted to ¥28,035 million, up ¥16,408 million year on year. All of the figures achieved record-high level. Capital investment by customers in general remained high in semiconductor market, and there were increase in early orders from those customers who were concerned for delays in delivery. As a result, orders received and revenue significantly increased in both the Products Business and the S&S business. Operating profit significantly increased due to the full-scale launch of the automated plant for dry vacuum pumps and modifications of chemical mechanical polishing (CMP) systems in addition to an increase in revenue, offsetting increase in personnel expenses and outsourcing expenses associated with expansion in demand and fixed costs associated with the automated plant for dry vacuum pumps.

Outline of Business Environment and Situation by Business Segment

Segment		Business environment in the fiscal year ended December 31, 2021	Business situation and the trend of orders received (Note 1)
Fluid Machinery & Systems	Pumps	(Overseas) • In the oil and gas markets, the market situation improved compared to the previous year and large-scale projects began mainly in Saudi Arabia and Qatar. On the other hand, in China, planned projects such as ultra-large petrochemical complex and the integration and improvement of an old-fashioned small refinery have been delayed due to CO_2 emissions adjustments. • Water infrastructure market is recovering with projects in China and Southeast Asia. In North America, renovation projects of deteriorated facilities are resumed. • In the construction equipment market, construction investment remains firm in Western countries. However, the growth in China has been slowing down. (Japan) • In the construction equipment market, the number of new construction starts is on a recovery trend. • Investment in renovation and maintenance for social infrastructure was larger than the previous year.	(Overseas) • Oil and gas related orders received exceeded that of the previous year. • The volume of orders received for the water infrastructure exceeded that of the previous year. • The volume of orders received for construction equipment exceeded that of the previous year. (Japan) • The volume of orders received for construction equipment exceeded that of the previous year due to successful measures to strengthen after sales service. • In the public sector, the volume of orders received exceeded that of the previous year due to successful measures for increasing orders received for comprehensive evaluation projects and after-sales service.
	Compressors & Turbines	• In the new product market, petrochemical projects in China have been partly delayed. In North America, shale gas-related projects as a whole are delayed and stagnant. On the other hand, in India and the Middle East, there were movements in the oil refining and petrochemicals markets. • In the service market, mobility restrictions to prevent the spread of COVID-19 have been partly eased, and movements are emerging in the entire market, including dispatching instructors, and the economy is on a recovery trend. • In the LNG market (cryogenic pump), although there are movements in some projects, investment decisions are slowing down.	• The volume of orders received for products exceeded that of the previous year. • The volume of orders received for service fields exceeded that of the previous year.
	Chillers	• In Japan, investment mainly in industry-related market recovered. However, some parts of the construction equipment market such as accommodations remained sluggish due to the repeated impacts of the spread of COVID-19. • In China, growth is slowing due to the impact of electricity supply restrictions and soaring raw material costs, etc.	• In Japan, the volume of orders received exceeded that of the previous year. • In China, the volume of orders received exceeded that of the previous year.
Environmental Plants (Note 2)		• Demand for new constructions of waste incineration facilities for the public sector ran at about the same level as in a typical year. • The volume of O&M orders placed for existing facilities ran at about the same level as in a typical year. • Construction demand for power generation facilities with woody biomass fuel for private companies and industrial waste incineration facilities for plastic waste, etc. continued.	• The volume of orders received significantly exceeded that of the previous year as orders of 5 large-scale waste incineration facilities for the public sector were placed. (Overview of major orders received) • DBO project of waste incineration facilities for the public sector (2 orders) • Core improvement project of waste incineration facilities and long-term comprehensive agreement for the public sector (2 orders) • Long-term comprehensive agreement for the public sector (1 order)

Segment	Business environment in the fiscal year ended December 31, 2021	Business situation and the trend of orders received (Note 1)
Precision Machinery	• The semiconductor manufacturing equipment market has been expanding due to the semiconductor shortage as a result of the widespread of 5G, working from home and IoT.	• The volume of orders received greatly exceeded that of the previous year as both logic foundries and memory companies are continuously expanding their capital investment and the recent shortage of materials caused customers to place orders ahead of schedule. • The S&S business remained firm as customers were operating at a high level even though they were partially affected by the spread of COVID-19.

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

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

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

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

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

(i) Actual Production

Actual production by segment during the fiscal year ended December 31, 2021 is as follows:

Segment	Production (Millions of yen)	YoY change (%)
Reportable segments		
Fluid Machinery & Systems Business	337,241	9.9
Environmental Plants Business	20,759	49.6
Precision Machinery Business	150,453	40.7
Total of reportable segments	508,454	18.9
Others	302	23.9
Total	508,756	18.9

(ii) Overview of Orders Received

The overview of orders received by segment during the fiscal year ended December 31, 2021 is as follows:

Segment	Orders received (Millions of yen)	YoY change (%)	Backlog of orders received (Millions of yen)	YoY change (%)
Reportable segments				
Fluid Machinery & Systems Business	354,810	17.8	224,365	15.5
Environmental Plants Business	129,496	109.2	285,242	25.8
Precision Machinery Business	285,401	94.6	141,756	204.6
Total of reportable segments	769,708	51.0	651,365	39.3
Others	1,775	19.4	176	847.6
Total	771,483	50.9	651,541	39.3

(iii) Actual Sales

Actual sales by segment during the fiscal year ended December 31, 2021 are as follows:

Segment	Sales (Millions of yen)	YoY change (%)
Reportable segments		
Fluid Machinery & Systems Business	336,980	7.6
Environmental Plants Business	71,824	6.5
Precision Machinery Business	192,791	37.4
Total of reportable segments	601,596	15.5
Others	1,617	8.6
Total	603,213	15.5

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

(2) Financial Position

(i) Assets

Total assets as of December 31, 2021 were ¥719,736 million, ¥74,964 million higher than as of December 31, 2020. Principal changes in asset items included an increase of ¥19,735 million in inventories, ¥15,944 million in cash and cash equivalents, and ¥11,754 million in goodwill and intangible assets.

Assets by operating segment were ¥360,986 million in the Fluid Machinery & Systems Business (an increase of ¥33,688 million year-on-year), ¥55,062 million in the Environmental Plants Business (an increase of ¥1,051 million year-on-year), ¥181,140 million in the Precision Machinery Business (an increase of ¥29,044 million year-on-year) and ¥34,733 million in Others (an increase of ¥1,348 million year-on-year).

(ii) Liabilities

Total liabilities as of December 31, 2021 were ¥398,080 million, ¥50,186 million higher than as of December 31, 2020. Principal changes in liability items included an increase of ¥19,856 million in trade and other payables, ¥13,695 million in bonds, borrowings and lease liabilities, and ¥9,715 million in contract liabilities.

(iii) Equity

Equity as of December 31, 2021 amounted to ¥321,655 million, ¥24,778 million higher than as of December 31, 2020. Principal changes in equity included repurchase of treasury shares of ¥20,010 million, dividends paid of ¥10,455 million, profit attributable to owners of parent of ¥43,616 million, and an increase of ¥5,926 million in exchange differences on translation of foreign operations.

Total equity attributable to owners of parent amounted to ¥312,310 million, and the ratio of equity attributable to owners of parent was 43.4%.

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

(i) Cash Flows

Net cash provided by operating activities amounted to a net inflow of ¥72,858 million for the fiscal year ended December 31, 2021, an increase of ¥4,010 million in net inflow compared to the previous year. This is primarily due to robust performance in operating income.

Net cash used in investing activities amounted to a net outflow of ¥31,361 million for the fiscal year ended December 31, 2021, an increase of ¥2,161 million in net outflow compared to the previous year. This is primarily due to purchase of fixed assets of ¥25,755 million and ¥10,375 million used for the purchase of shares of subsidiaries resulting in changes in the scope of consolidation.

Free cash flow, the sum of cash flows from operating and investing activities, amounted to a net inflow of ¥41,497 million for the fiscal year ended December 31, 2021, an increase of ¥1,849 million in net inflow compared to the previous year.

Net cash used in financing activities amounted to a net outflow of ¥29,489 million for the fiscal year ended December 31, 2021, an increase of ¥15,099 million in net outflow compared to the previous year. This is primarily due to the purchase of treasury stock of ¥20,099 million and cash dividends paid of ¥10,455 million, despite a net increase in short-term and long-term loans payable of ¥7,581 million.

As a result, cash and cash equivalents as of December 31, 2021 amounted to ¥136,488 million, ¥15,944 million higher than as of December 31, 2020.

(ii) Basic Policy for Financial Strategies

The Group's basic policy for financial strategies is to allocate management resources in a timely and appropriate manner to increase corporate value. We believe that it is important to have both a strong financial position and high capital efficiency.

The equity attributable to owners of parent has received the single A flat* rating, a credit rating that should be maintained. It is sufficient for the Company to engage in its business. In the current financial position of the Group, we will reduce trade receivables and inventories and allocate the generated funds to carefully selected growth investments to strengthen fixed assets. At the same time, we will control equity attributable to owners of parent within a certain level in order to enhance capital efficiency.

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

(iii) Financing

The Group will make effective use of not only internal funds, mainly consisting of operating cash flow, but also external funds, such as borrowings from financial institutions and the issuance of bonds, as working capital required for business operations and investment funds for growth. We promote the use of debt based on a D/E ratio of 0.4 to 0.6 (IFRS) to reduce capital costs and improve capital efficiency.

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

Alternative liquidity

Overdraft contract: ¥5,000 million

Commitment line contracts: ¥80,000 million

There were no outstanding borrowings from these sources as of December 31, 2021.

(4) Significant Accounting Estimates and Underlying Assumptions

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

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

(5) Parallel Disclosure Information

The Condensed Consolidated Financial Statements prepared in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (excluding Chapter VII and Chapter VIII, hereinafter "Japanese GAAP") and changes in significant items that form the basis for preparing the Condensed Consolidated Financial Statements are as follows.

The Condensed Consolidated Financial Statements prepared in accordance with Japanese GAAP have not been subject to audits pursuant to the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

In addition, monetary amounts in the Condensed Consolidated Financial Statements prepared in accordance with Japanese GAAP are rounded down to the nearest million yen.

1) Condensed Consolidated Balance Sheet (Japanese GAAP)

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Assets		
Current assets	438,637	498,921
Fixed assets		
Tangible fixed assets	136,202	143,170
Intangible assets	12,858	24,664
Investments and other assets	33,879	34,228
Total fixed assets	182,940	202,063
Total assets	621,578	700,985
Liabilities		
Current liabilities	258,185	318,657
Long-term liabilities	58,922	56,208
Total liabilities	317,108	374,865
Net assets		
Shareholders' equity	310,903	323,044
Accumulated other comprehensive income	(14,671)	(6,801)
Subscription rights to shares	765	585
Non-controlling interests	7,472	9,290
Total net assets	304,470	326,119
Total liabilities and net assets	621,578	700,985

2) Condensed Consolidated Statement of Income and Condensed Consolidated Statement of Comprehensive Income (Japanese GAAP)

Condensed Consolidated Statement of Income

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Net sales	523,727	603,213
Cost of sales	379,087	424,293
Gross profit	144,639	178,919
Selling, general and administrative expenses	106,760	120,183
Operating income	37,879	58,736
Non-operating income	2,155	2,602
Non-operating expenses	3,175	3,019
Ordinary income	36,859	58,318
Extraordinary income	121	3,167
Extraordinary loss	934	2,134
Income before income taxes	36,045	59,351
Total income taxes	9,859	13,963
Profit	26,186	45,388
Profit attributable to non-controlling interests	1,713	2,812
Profit attributable to owners of parent	24,473	42,576

Condensed Consolidated Statement of Comprehensive Income

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Profit	26,186	45,388
Other comprehensive income	(2,073)	8,493
Comprehensive income	24,113	53,882
Comprehensive income attributable to:		
Owners of parent	22,373	50,446
Non-controlling interests	1,740	3,435

3) Condensed Consolidated Statement of Changes in Net Assets (Japanese GAAP)

Fiscal year ended December 31, 2020

(Millions of yen)

	Shareholders' equity	Accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at January 1, 2020	295,504	(11,852)	1,132	7,043	291,827
Cumulative effects of changes in accounting policies	(4,473)	—	—	—	(4,473)
Restated balance	291,030	(11,852)	1,132	7,043	287,353
Changes of items during period	19,873	(2,819)	(366)	428	17,116
Balance at December 31, 2020	310,903	(14,671)	765	7,472	304,470

Fiscal year ended December 31, 2021

(Millions of yen)

	Shareholders' equity	Accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at January 1, 2021	310,903	(14,671)	765	7,472	304,470
Changes of items during period	12,140	7,870	(180)	1,818	21,649
Balance at December 31, 2021	323,044	(6,801)	585	9,290	326,119

4) Condensed Consolidated Statement of Cash Flows (Japanese GAAP)

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Net cash provided by operating activities	64,234	68,549
Net cash used in investing activities	(29,071)	(31,754)
Net cash used in financing activities	(9,628)	(25,179)
Effect of exchange rate changes on cash and cash equivalents	(246)	3,936
Increase (decrease) in cash and cash equivalents	25,287	15,551
Cash and cash equivalents at beginning of period	93,351	120,544
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	1,904	392
Cash and cash equivalents at end of period	120,544	136,488

5) Changes in Significant Items That Form the Basis for Preparing the Condensed Consolidated Financial Statements (Japanese GAAP)

Fiscal year ended December 31, 2020(Change in Scope of Consolidation)

EBARA MACHINERY INDIA PRIVATE LIMITED, Musashino E Service Company, ECE Co., Ltd., and 23 other companies are included in the scope of consolidation. In addition, Saku E Service Co., Ltd. and four other companies, which were newly established, are included in the scope of consolidation.

(Changes in Accounting Policies)

(Adoption of the Accounting Standard for Revenue Recognition)

As "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018, hereinafter "Revenue Recognition Standard") and "Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March

30, 2018) became applicable from the beginning of the fiscal year starting on and after April 1, 2018, the Company has decided to adopt the Revenue Recognition Standards from the beginning of the fiscal year ended December 31, 2020, and recognize revenue at the amount expected to be received in exchange for the promised goods or services when the control of the goods or services is transferred to a customer.As a result, for the fiscal year ended December 31, 2020, net sales increased by ¥4,805 million, cost of sales increased by ¥2,895 million, selling, general and administrative expenses decreased by ¥516 million, operating income, ordinary income and income before income taxes increased by ¥2,425 million, respectively. The beginning balance of retained earnings decreased by ¥4,473 million. Net assets per share decreased by ¥29.31, net income per share increased by ¥17.62 and diluted net income per share increased by ¥17.55.

(Changes in Presentation)

“Advances received” which were included in “Others” under current liabilities in the previous fiscal year are separately presented from the fiscal year ended December 31, 2020 as it became quantitatively material. We have restated the previous fiscal year's consolidated financial statements to reflect this change in presentation. As a result, the ¥58,547 million which was presented as “Others” under current liabilities in the consolidated balance sheet of the previous fiscal year is now restated as “Advances received” of ¥17,160 million and “Others" of ¥41,386 million.

Fiscal year ended December 31, 2021

(Change in Scope of Consolidation)

Due to the acquisition of Çiğli Su Teknolojileri A.Ş., said company and its subsidiaries Vansan Makina Sanayi ve Ticaret A.Ş. and Vansan Makina Montaj ve Pazarlama A.Ş., are newly included in the scope of consolidation. In addition, Ebara Environmental Engineering (China) Co., Ltd. and three other companies, which were newly established, are included in the scope of consolidation.

(6) Information on Differences of Major Items Relating to the Overview of Operating Results

Differences between the major items in the Consolidated Financial Statements prepared in accordance with IFRS and the items corresponding to those in case of preparing the Consolidated Financial Statements in accordance with Japanese GAAP are as follows:

Fiscal year ended December 31, 2020

The differences are as stated in “V. Financial Information, 1. Consolidated Financial Statements, (1) Notes to the Consolidated Financial Statements, 42. First-time adoption of IFRS.”

Fiscal year ended December 31, 2021

(Leases)

Under Japanese GAAP, as lessee, the Group classified lease contracts as finance leases or operating leases. For operating leases, the accounting treatment was similar to that of regular rental transactions. Under IFRS, the Group does not make such classification and recognizes right of use assets included in “Property, plant and equipment” and “Bonds, borrowings and lease liabilities” of current and non-current liabilities with regard to all leases except for short term leases and leases with underlying assets of low value. As a result, in the Consolidated Financial Statements according to IFRS, “Property, plant and equipment” and “Bonds, borrowings and lease liabilities” increased by ¥18,128 million and ¥17,935 million, respectively, compared to that prepared according to Japanese GAAP.

(Amortization of Goodwill)

Under Japanese GAAP, goodwill was amortized using the straight-line method over a reasonable amortization period within 20 years. Under IFRS, goodwill is not amortized but tested for impairment at the same time every year and whenever there is any indication that it may be impaired. As a result, in the Consolidated Financial Statements according to IFRS, “Selling, general and administrative expenses” decreased by ¥414 million compared to that prepared according to Japanese GAAP.

(Equity Instruments)

Under Japanese GAAP, gain or loss on sales of investment securities and loss on valuation of investment securities were reported as net profit and loss. Under IFRS, in accordance with IFRS 9, the Group classified equity instruments as equity instruments measured at fair value through other comprehensive income, and when investments are disposed of or their fair value significantly declines, they are reclassified from other components of equity to retained earnings. As a result, in the Consolidated Financial Statements according to IFRS, “Profit before tax” increased by ¥1,057 million compared to that prepared according to Japanese GAAP.

(Retirement Benefit Costs)

Under Japanese GAAP, with regard to retirement benefits on defined benefit plan, service costs, interest costs and expected return were recognized as net profit and loss. The amounts in actuarial gains or losses and prior service costs related to these plans which were not expensed were recorded as accumulated other comprehensive income and then recognized as net profit and loss in the future for a certain period. On the other hand, under IFRS, with regard to post-employment benefits on defined benefit plan, current service costs and prior service costs are recognized as net profit and loss. Net interest costs are recognized as net profit and loss calculated by net defined benefit liabilities (assets) multiplied by discount rate. As a result, in the Consolidated Financial Statements according to IFRS, “Cost of sales” and “Selling, general and administrative expenses” increased by ¥373 million and ¥517 million, respectively, compared to that prepared according to Japanese GAAP.

4. Significant Management Contracts

(1) Technology Introduction Contracts

There are no important contracts to be reported.

(2) Licensing Contracts

There are no important contracts to be reported.

(3) Business Alliance Contracts

There are no important contracts to be reported.

(4) Acquisition Contracts

There are no important contracts to be reported.

5. Research and Development Activities

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

Each business division and Group company effectively pursued R&D for practical application of new technologies and application of new products, as well as collaboration with external organizations, such as business alliances, to increase added value of our technologies and products. Meanwhile, the corporate R&D organization strengthened the common foundation and strategically important core technologies that support these businesses, while exploring and commercializing technological seeds based on medium- to long-term perspectives. Joint research with universities and other external research institutions was also actively promoted. Furthermore, we are using the Ebara Innovation for X (EIX) system, a system for creating new businesses, to accelerate our efforts in digital transformation (DX) and process innovation, as well as the use of outcomes.

With the aim of passionately supporting the creation of a sustainable, environmentally friendly world with ample food and water, and safe and reliable social infrastructure, we are striving to create new businesses by utilizing the technologies we have cultivated and combining them with superior technologies from outside the Company. Our business creation efforts include building an inland recirculating aquaculture ecosystem, as well as developing equipment for regenerative medicine, technology to produce structural protein materials, and cell-culture related technology.

R&D expenses for the fiscal year ended December 31, 2021 amounted to ¥13,575 million.

Activities by business segment are as follows:

Fluid Machinery & Systems (FMS) Business

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

In standard pumps, the FMS Company continued to develop a range of products that integrate all electromechanical, communication, and control functions with the aim of conserving energy and resources and reducing the environmental burden. It has also expanded the product lineup of EVMS vertical multistage centrifugal pumps with high pump efficiency, and LXD vertical process pumps with compact, space-saving, and slurry-compatible features. Also, while continuing to develop ICT technology products that contribute to saving customers' manpower and labor, the FMS Company launched the "EBARA Maintenance Cloud," which combines IoT sensors with the cloud, to provide a condition monitoring system that enables remote checks on the safety of pumps.

In custom pumps, the FMS Company continued to develop products aimed at conserving energy and resources and reducing the environmental burden in the energy and water usage fields. It is also developing liquid-hydrogen pumps, and has launched a new corporate project, "CP Hydrogen Business Project," to engage in and accelerate projects other than those subsidized by NEDO.

In the compressor and turbine field, the FMS Company continued to develop new high-efficiency turbines that contribute to conserving energy and resources. It is also developing compressors for natural gas pipelines.

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

In relation to basic technology, the FMS Company carried out technology development in cooperation with the corporate R&D organization. Regarding new basic production technologies for use in materials processing, welding, surface modification, and processing, the FMS Company is creating a digital manufacturing system using an efficient 3D shape modeling method and 3D lamination technology to reduce casting lead time and improve manufacturing accuracy. Other ongoing efforts include: "further improvement of development throughput and streamlining of the digital design and analysis processes by utilizing numerical simulation technologies and new optimization techniques," "expansion of experimental basic technology by introducing PIV (particle image velocimetry) technology," and "development and application of Internet of Things (IoT) technologies that help improve product performance and reliability and support product life cycles.”

During the fiscal year ended December 31, 2021, the FMS Company made R&D expenditures of ¥6,280 million.

Environmental Plants (EP) Business

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

During the fiscal year ended December 31, 2021, the EP Company made R&D expenditures of ¥908 million.

Precision Machinery (PM) Business

In the Precision Machinery Business, the PM Company is developing new processing equipment and improving existing equipment to manufacture semiconductor devices that are compatible with development requirements not only for the miniaturization of chips and three-dimensional integration, but also for new packaging technology, an area of increasing importance. The PM Company is also tailoring these efforts to the technology development requirements projected for the AI and the IoT market that is growing rapidly. As for component products, the PM Company is developing products that can further contribute to energy savings and reduced environmental footprints as well as products that take advantage of our strengths as a comprehensive exhaust abatement system manufacturer. Also, the PM Company is continuing research on next-generation semiconductor processing technologies through joint development and consortia with customers and joint research with prominent universities.

During the fiscal year ended December 31, 2021, the PM Company made R&D expenditures of ¥6,387 million.

III. Facilities

1. Overview of Capital Investment

For the fiscal year under review, the Group implemented capital investments amounting to ¥22,758 million, primarily for the expansion of production capability and the installation of equipment to increase productivity. In addition to property, plant and equipment, investment amounts include investments in intangible assets.Principal capital investments by business segment are as follows. Please note that these investment amounts include inter-segment transactions.

(Fluid Machinery & Systems Business)

Investments were made primarily for the maintenance and enhancement of production capability and the increase in productivity. The amount of capital investment was ¥9,949 million.

(Environmental Plants Business)

Investments were made primarily for information technology equipment and for the development of technology aimed at improving functionality. The amount of capital investment was ¥762 million.

(Precision Machinery Business)

Investments were made primarily for the enhancement of production capability. The amount of capital investment was ¥5,608 million.

2. Major Facilities

(1) Reporting Company

As of December 31, 2021

District name (Location)	Segment	Facilities	Carrying amount (Millions of yen)						Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area/ thousands of m^2)	Leased assets	Others	Total	
Futtsu District (Futtsu-shi, Chiba)	Fluid Machinery & Systems Business	Facilities for production of pumps, etc.	5,497	1,051	2,671 (163)	0	91	9,312	324
Sodegaura District (Sodegaura-shi, Chiba)	Fluid Machinery & Systems Business	Facilities for production of compressors and turbines, etc.	87	0	1,981 (155)	–	–	2,069	16
Fujisawa District (Fujisawa-shi, Kanagawa)	Fluid Machinery & Systems Business	Facilities for production of pumps and refrigeration and heating equipment, etc.	1,640	2,768	372 (150)	–	301	5,082	419
Fujisawa District (Fujisawa-shi, Kanagawa)	Precision Machinery Business	Facilities for production and development of semiconductor manufacturing equipment and vacuum pumps, etc.	16,173	16,714	460 (186)	25	1,604	34,978	921
Kumamoto District (Tamana-gun, Kumamoto)	Precision Machinery Business	Facilities for production of semiconductor manufacturing equipment, etc.	4,927	241	1,740 (142)	37	161	7,107	167
Head Office, etc. (Ota-ku, Tokyo, etc.)	Others	Information infrastructure equipment and office buildings, etc.	10,127	1,372	1,892 (14)	329	715	14,437	563

Notes: 1. Amounts based on Japanese GAAP are stated for carrying amount.

2. Among carrying amount, “Others” represents tools, furniture and fixtures, and excludes construction in progress.

(2) Domestic Subsidiaries

As of December 31, 2021

Company name (Location)	Segment	Facilities	Carrying amount (Millions of yen)						Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area/ thousands of m^2)	Leased assets	Others	Total	
Elliott Ebara Turbomachinery Corporation (Sodegaura-shi, Chiba)(Note 4)	Fluid Machinery & Systems Business	Facilities for production of compressors and turbines, etc.	449	1,867	–	328	75	2,721	320
EBARA FAN & BLOWER CO., LTD. (Suzuka-shi, Mie, etc.)	Fluid Machinery & Systems Business	Facilities for production of fans, etc.	430	843	109 (60)	–	71	1,454	264
Chubu Recycle Co., Ltd. (Nagoya-shi, Aichi)	Environmental Plants Business	Facilities for melting and recycling of incinerator ash and fly ash, etc.	116	614	– [37]	33	19	782	53

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

(3) Overseas Subsidiaries

As of December 31, 2021

Company name (Location)	Segment	Facilities	Carrying amount (Millions of yen)						Number of employees (Persons)
			Buildings and structures	Machinery, equipment and vehicles	Land (Area/ thousands of m^2)	Right-of-use assets	Others	Total	
EBARA GREAT PUMPS CO., LTD. * (China)(Note 4)	Fluid Machinery & Systems Business	Facilities for production of pumps, etc.	826	424	– [95]	99	261	1,612	428
EBARA MACHINERY ZIBO CO., LTD. (China) (Note 4)	Fluid Machinery & Systems Business	Facilities for production of pumps, etc.	653	346	– [59]	348	62	1,410	477
EBARA REFRIGERATION EQUIPMENT & SYSTEMS (CHINA) CO., LTD.(Note 4)	Fluid Machinery & Systems Business	Facilities for production of refrigeration and heating equipment, etc.	2,068	352	– [194]	574	226	3,222	602
Ebara Pumps Europe S.p.A. (Italy)(Note 5)	Fluid Machinery & Systems Business	Facilities for production of pumps, etc.	314	1,527	40 (24) [27]	1,566	113	3,561	464
Elliott Company (United States)	Fluid Machinery & Systems Business	Facilities for production of compressors and turbines, etc.	4,300	6,140	201 (482)	1,171	489	12,302	1,345
Ebara Precision Machinery Korea Incorporated (Korea)	Precision Machinery Business	Facilities for production of component devices and semiconductor manufacturing equipment, etc.	478	437	376 (9)	–	15	1,308	224
Ebara Precision Machinery Taiwan Incorporated (Taiwan)	Precision Machinery Business	Facilities for production of vacuum pumps and CMP equipment, etc.	651	203	633 (7)	10	22	1,521	354

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

Notes: 1. Amounts based on IFRS are stated for carrying amount.

2. Carrying amount does not include consumption taxes, etc.
3. Among carrying amount, “Others” represents tools, furniture and fixtures, and excludes construction in progress.
4. The area related to land-use rights is in brackets [ ].
5. The area of land leased from parties other than consolidated companies is in brackets [ ].

3. Plan of New Installation and Disposal of Facilities

(1) New Installation of Major Facilities

Company/district name (Location)	Segment		Facilities	Investment plan (Millions of yen)	Financing method
Reporting company					
Futtsu District (Futtsu-shi, Chiba)	Fluid Machinery & Systems Business		Facilities for production of pumps, etc.	700	Self funding, etc.
Fujisawa District (Fujisawa-shi, Kanagawa)	Fluid Machinery & Systems Business		Facilities for production of pumps, etc.	2,100	Self funding, etc.
Head Office, etc. (Ota-ku, Tokyo, etc.)	Fluid Machinery & Systems Business		Information infrastructure equipment	800	Self funding, etc.
Elliott Ebara Turbomachinery Corporation (Sodegaura-shi, Chiba)	Fluid Machinery & Systems Business		Facilities for production and testing of compressors and turbines, etc.	1,700	Self funding, etc.
Elliott Company (U.S.A.)	Fluid Machinery & Systems Business		Facilities for production and testing of compressors and turbines, etc.	2,000	Self funding, etc.
Reporting company					
Fujisawa District (Fujisawa-shi, Kanagawa)	Precision Machinery Business		Facilities for production of semiconductor manufacturing equipment and vacuum pumps, etc., information infrastructure equipment, and construction of an equipment development building	12,200	Self funding, etc.
Kumamoto District (Tamana-gun, Kumamoto)	Precision Machinery Business		Facilities for production of semiconductor manufacturing equipment, etc.	1,200	Self funding, etc.
Reporting company					
Headquarters (Ota-ku, Tokyo, etc.)	Others		Information infrastructure equipment and office buildings, etc.	9,000	Self funding, etc.

Notes: 1. Description of production capacity in relation to the addition of above-stated facilities is omitted because products of different type, performance, etc. are manufactured at each facility mainly to meet individual orders of the customers and it is difficult to measure such capacity.

(2) Disposal of Major Facilities

There are no matters to be reported.

IV. Information about Reporting Company

1. Company's Shares

(1) Total Number of Shares

(i) Authorized Shares

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

(ii) Issued Shares

Class	Number of issued shares as of fiscal year end (shares) (December 31, 2021)	Number of issued shares as of filing date (shares) (March 30, 2022)	Name of financial instruments exchange on which securities are listed or authorized financial instruments business association to which securities are registered	Description
Common shares	95,513,633	92,016,033	First Section of the Tokyo Stock Exchange	Shares with full voting rights, which are standard shares of the Company with no restrictions on rights. The number of shares constituting one unit is 100 shares.
Total	95,513,633	92,016,033	–	–

Notes: 1. Based on a resolution for the cancellation of treasury shares at the Board of Directors meeting held on May 14, 2021, the total number of issued shares decreased by 3,513,400 shares as of January 31, 2022.

2. During the period from January 1, 2022 to February 28, 2022, the Company issued 15,800 shares upon exercise of subscription rights to shares (stock options).

3. The number of issued shares as of the filing date does not include shares issued upon exercise of subscription rights to shares between March 1, 2022 and the filing date of this Annual Securities Report.

(2) Subscription Rights to Shares

(i) Stock Option Plan

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

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

The details of the plan are as follows.

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

Resolution as of October 19, 2009 (Title and number of grantees: 9 Directors (excluding Outside Directors) and 23 Executive Officers (*shikkou-yakuin*) of the Company)		
	As of December 31, 2021	As of the month end prior to the filing date (February 28, 2022)
Number of subscription rights to shares (units)	68 (Note 1)	51 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	13,600 common shares (Note 1)	10,200 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2011 to November 5, 2024	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 1,706 Amount of capital incorporation: 853(Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

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

(3) When Share Subscription Right Holders are those newly appointed as Directors or Executive Officers (*shikkou-yakuin*) on or after July 1, 2009, or when they retire from their positions as Directors or Executive Officers (*shikkou-yakuin*) on or before the last day of the Final Fiscal Year, the number of subscription rights to shares they may exercise shall be calculated by multiplying the adjusted figure described in (2) above by a term of office ratio (a figure representing the ratio of days in office to the number of days in the period from April 1, 2009 through March 31, 2011).

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

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

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

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

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

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

(1) Class of shares of the Reorganized Company underlying subscription rights to shares
Such shares shall be the Reorganized Company’s common shares.

(2) Number of shares of the Reorganized Company underlying subscription rights to shares
The number of shares shall be determined in the same manner as the proviso in the Note 1 above, taking into account the conditions, etc. of the Reorganization Activity.

(3) Amount of assets to be contributed upon exercise of subscription rights to shares
The amount shall be calculated by multiplying ¥1 per share by the Number of Granted Shares.

(4) Period during which subscription rights to shares may be exercised
The period shall be the same as the exercise period of the Remaining Share Subscription Rights.

(5) Restrictions on the acquisition of subscription rights to shares by transfer
The transfer of the subscription rights to shares shall require the approval of the Reorganized Company.

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

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

Resolution as of September 13, 2010(Title and number of grantees: 4 Executive Officers (*shikkou-yakuin*) of the Company)		
	As of December 31, 2021	As of the month end prior to the filing date (February 28, 2022)
Number of subscription rights to shares (units)	3 (Note 1)	3 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	600 common shares (Note 1)	600 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2011 to November 5, 2024	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 1,716 Amount of capital incorporation: 858(Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Resolution as of September 12, 2011(Title and number of grantees: 8 Directors (excluding Outside Directors) and 23 Executive Officers (*shikkou-yakuin*) of the Company)		
	As of December 31, 2021	As of the month end prior to the filing date (February 28, 2022)
Number of subscription rights to shares (units)	306 (Note 1)	299 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	61,200 common shares (Note 1)	59,800 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2014 to June 30, 2026	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 1,226Amount of capital incorporation: 613(Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

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

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

rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the Attained Performance by the Target Performance).

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

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

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

(1) Class of shares of the Reorganized Company underlying subscription rights to shares
Such shares shall be the Reorganized Company’s common shares.

(2) Number of shares of the Reorganized Company underlying subscription rights to shares
The number of shares shall be determined in the same manner as the proviso in the Note 1 above, taking into account the conditions, etc. of the Reorganization Activity.

(3) Amount of assets to be contributed upon exercise of subscription rights to shares
The amount shall be calculated by multiplying ¥1 per share by the Number of Granted Shares.

(4) Period during which subscription rights to shares may be exercised
The period shall be the same as the exercise period of the Remaining Share Subscription Rights.

(5) Restrictions on the acquisition of subscription rights to shares by transfer
The transfer of the subscription rights to shares shall require the approval of the Reorganized Company.

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

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

Resolution as of September 10, 2012(Title and number of grantees: 4 Directors (excluding Independent Directors) and 4 Executive Officers (*shikkou-yakuin*) of the Company, and 10 officers including Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2021	As of the month end prior to the filing date (February 28, 2022)
Number of subscription rights to shares (units)	39 (Note 1)	39 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	7,800 common shares (Note 1)	7,800 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2014 to June 30, 2026	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 1,441Amount of capital incorporation: 720.5(Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left

Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Resolution as of September 9, 2013(Title and number of grantees: 5 Directors (excluding Outside Directors) and 4 Executive Officers (*shikkou-yakuin*) of the Company, and 7 officers including Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2021	As of the month end prior to the filing date (February 28, 2022)
Number of subscription rights to shares (units)	39 (Note 1)	39 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	7,800 common shares (Note 1)	7,800 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2014 to June 30, 2026	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 2,601 Amount of capital incorporation: 1,300.5 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

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

(2) If the Company’s consolidated return on invested capital (ROIC; hereinafter the “Attained Performance”) for the final fiscal year that ends within a one-year period after the grant date (hereinafter the “Final Fiscal Year”) reaches 8.0% (hereinafter the “Target Performance”), Share Subscription Right Holders may exercise all the allocated subscription rights to shares. On the other hand, if the Target Performance is not met, they may only exercise the subscription rights

to shares for a number (a fraction less than one unit shall be discarded) calculated by multiplying the number of allocated rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the Attained Performance by the Target Performance).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Resolution as of September 9, 2014(Title and number of grantees: 8 Directors (excluding Outside Directors) and 19 Executive Officers (*shikkou-yakuin*) of the Company, and 16 officers including Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2021	As of the month end prior to the filing date (February 28, 2022)
Number of subscription rights to shares (units)	449 (Note 1)	415 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	89,800 common shares (Note 1)	83,000 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2017 to June 30, 2029	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 3,066Amount of capital incorporation: 1,533(Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Resolution as of September 8, 2015(Title and number of grantees: 11 Non-executive Directors (including Outside Directors) and 12 Executive Officers (*shikkou-yaku*) and 3 Executive Officers (*shikkou-yakuin*) of the Company, and 5 officers including Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2021	As of the month end prior to the filing date (February 28, 2022)
Number of subscription rights to shares (units)	94 (Note 1)	94 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	18,800 common shares (Note 1)	18,800 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2017 to June 30, 2029	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 1,996 Amount of capital incorporation: 998 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

4. (1) Persons to whom the subscription rights to shares are to be allocated (hereinafter "Share Subscription Right Holders") may exercise their subscription rights to shares only during their terms of office as Directors, Executive Officers

(*shikkou-yaku*) or Executive Officers (*shikkou-yakuin*) of the Company or its subsidiaries and within five years after their retirement.

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

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

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

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

(Attained performance conditions)

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

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

(Restrictions on exercise period)

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

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

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

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

of the Reorganized Company are to be issued in accordance with the following conditions:

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

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

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

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

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

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

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

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

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

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

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

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

Resolution as of September 13, 2016(Title and number of grantees: 11 Non-executive Directors (including Outside Directors), 4 Executive Officers (*shikkou-yaku*) and 1 Executive Officer (*shikkou-yakuin*) of the Company, and 5 officers including Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2021	As of the month end prior to the filing date (February 28, 2022)
Number of subscription rights to shares (units)	46 (Note 1)	30 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	9,200 common shares (Note 1)	6,000 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2017 to June 30, 2029	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 2,749 Amount of capital incorporation: 1,374.5 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

3. The issue price is the sum of the amount to be paid in upon exercise of each subscription right to shares (¥1 per share) and the fair value of each subscription right to shares (¥2,748 per share) at the grant date. The amount equivalent to the fair value of subscription rights to shares to be allocated to each Director, Executive Officer (*shikkou-yaku*) or Executive Officer

(*shikkou-yakuin*) of the Company or its subsidiary shall be offset by the same amount of compensation claims as those rights held by the Director, Executive Officer (*shikkou-yaku*) or Executive Officer (*shikkou-yakuin*) at the grant date.

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

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

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

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

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

(Attained performance conditions)

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

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

(Restrictions on exercise period)

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

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

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

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

individual cases. In such a case, the Remaining Share Subscription Rights shall cease to exist, and the Reorganized Company shall newly issue subscription rights to shares. However, the foregoing shall be limited to cases where it is indicated in an absorption-type or incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that subscription rights to shares of the Reorganized Company are to be issued in accordance with the following conditions:

(1) Class of shares of the Reorganized Company underlying subscription rights to shares
Such shares shall be the Reorganized Company's common shares.

(2) Number of shares of the Reorganized Company underlying subscription rights to shares
The number of shares shall be determined in the same manner as the proviso in the Note 1 above, taking into account the conditions, etc. of the Reorganization Activity.

(3) Amount of assets to be contributed upon exercise of subscription rights to shares
The amount shall be calculated by multiplying ¥1 per share by the Number of Granted Shares.

(4) Period during which subscription rights to shares may be exercised
The period shall be the same as the exercise period of the Remaining Share Subscription Rights.

(5) Restrictions on the acquisition of subscription rights to shares by transfer
The transfer of the subscription rights to shares shall require the approval of the Reorganized Company.

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

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

Resolution as of September 11, 2017(Title and number of grantees: 10 Non-executive Directors (including Outside Directors), 12 Executive Officers (*shikkou-yaku*) and 19 Advisory Officers of the Company, and 10 officers including Directors and Advisory Officers of subsidiaries)		
	As of December 31, 2021	As of the month end prior to the filing date (February 28, 2022)
Number of subscription rights to shares (units)	337 (Note 1)	327 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	33,700 common shares (Note 1)	32,700 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From April 1, 2020 to March 31, 2032	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 3,454 Amount of capital incorporation: 1,727 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

3. The issue price is the sum of the amount to be paid in upon exercise of each subscription right to shares (¥1 per share) and

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

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

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

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

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

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

   (Attained performance conditions)

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

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

   (Restrictions on exercise period)

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

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

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

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

individual cases. In such a case, the Remaining Share Subscription Rights shall cease to exist, and the Reorganized Company shall newly issue subscription rights to shares. However, the foregoing shall be limited to cases where it is indicated in an absorption-type or incorporation-type merger agreement, absorption-type company split agreement, incorporation-type company split plan, share exchange agreement or share transfer plan that subscription rights to shares of the Reorganized Company are to be issued in accordance with the following conditions:

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

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

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

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

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

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

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

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

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

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

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

(ii) Details of Rights Plans

Not applicable.

(iii) Status of Other Subscription Rights to Shares

Not applicable.

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

Not applicable.

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

Date	Changes in the total number of shares issued (Shares)	Balance of the total number of shares issued (Shares)	Changes in share capital (Millions of yen)	Balance of share capital (Millions of yen)	Changes in legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
From April 1, 2017 to December 31, 2017(Note 1)	47,200	101,783,253	50	78,815	50	82,744
From January 1, 2018 to May 7, 2018 (Note 1)	27,800	101,811,053	24	78,840	24	82,768
May 8, 2018(Note 2)	104,600	101,915,653	194	79,034	194	82,962
From May 9, 2018 to December 31, 2018 (Note 1)	42,200	101,957,853	32	79,066	32	82,995
From January 1, 2019 to May 7, 2019(Note 1)	37,800	101,995,653	37	79,104	37	83,032
May 8, 2019(Note 3)	16,600	102,012,253	27	79,131	27	83,060
From May 9, 2019 to October 30, 2019(Note 1)	16,800	102,029,053	22	79,154	22	83,082
October 31, 2019(Note 4)	(6,900,000)	95,129,053	–	79,154	–	83,082
From November 1, 2019 to December 31, 2019 (Note 1)	800	95,129,853	0	79,155	0	83,083
From January 1, 2020 to May 11, 2020 (Note 1)	74,900	95,204,753	88	79,243	88	83,171
May 12, 2020(Note 5)	88,500	95,293,253	97	79,340	97	83,269
May 12, 2020(Note 6)	25,600	95,318,853	28	79,368	28	83,297

From May 13, 2020 to December 31, 2020 (Note 1)	72,600	95,391,453	82	79,451	82	83,379
From January 1, 2021 to May 11, 2021 (Note 1)	20,800	95,412,253	23	79,474	23	83,402
May 12, 2021 (Note 7)	40,680	95,452,933	101	79,576	101	83,504
From May 13, 2021 to December 31, 2021 (Note 1)	60,700	95,513,633	67	79,643	67	83,571

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

2. The increase was due to the issuance of new shares as restricted stock compensation.
Issue price: ¥3,715
Amount of capital incorporation: ¥1,857.5
Allottees: 10 Directors, 12 Executive Officers (*shikkou-yaku*), and 22 employees of the Company, and 5 Directors and 4 employees of subsidiaries of the Company

3. The increase was due to the issuance of new shares as restricted stock compensation.
Issue price: ¥3,300
Amount of capital incorporation: ¥1,650
Allottees: 2 Directors, 4 Executive Officers (*shikkou-yaku*), and 9 employees of the Company, and 3 Directors of subsidiaries of the Company

4. The decrease was due to the retirement of treasury shares on October 31, 2019 by the resolution of the Board of Directors meeting held on October 15, 2019.

5. The increase was due to the issuance of new shares as restricted stock compensation.
Issue price: ¥2,198
Amount of capital incorporation: ¥1,099
Allottees: 9 Directors, 13 Executive Officers (*shikkou-yaku*), and 22 employees of the Company, and 8 Directors and 1 employee of subsidiaries of the Company

6. The increase was due to the issuance of new shares as performance-linked stock compensation.
Issue price: ¥2,198
Amount of capital incorporation: ¥1,099
Allottees: 3 Non-executive Directors, 15 Executive Officers (*shikkou-yaku*), and 30 employees of the Company, and 8 Directors and 2 employees of subsidiaries of the Company

7. The increase was due to the issuance of new shares as restricted stock compensation.
Issue price: ¥5,000
Amount of capital incorporation: ¥2,500
Allottees: 9 Directors, 13 Executive Officers, and 18 employees of the Company, and 8 Directors and 1 employee of subsidiaries of the Company

8. Due to the cancellation of treasury shares as resolved by the Board of Directors meeting held on May 14, 2021, the total number of issued shares decreased by 3,513 thousand shares as of January 31, 2022.

9. During the period from January 1, 2022 to February 28, 2022, due to the exercise of subscription rights to shares (stock options), the total number of issued shares, the amount of share capital and the amount of legal capital surplus increased by 15 thousand shares, ¥20 million and ¥20 million, respectively.

(5) Shareholding by Shareholder CategoryAs of December 31, 2021

Category	Status of shares (number of shares constituting one unit: 100 shares)								Shares less than one unit (shares)
	National and local governments	Financial institutions	Financial instruments business operators	Other corporations	Foreign corporations, etc.		Individuals and others	Total	
					Non-individuals	Individuals			
Number of shareholders (persons)	–	73	47	323	404	28	17,704	18,579	–
Number of shares held (units)	–	284,010	62,647	26,721	438,017	653	141,498	953,546	159,033
Percentage of shareholdings	–	29.78	6.57	2.80	45.94	0.07	14.84	100.00	–

(%)									

Notes: 1. Out of 3,536,073 treasury shares, 35,360 units are included in "Individuals and others" and 73 shares are included in "Shares less than one unit."

2. The number of shares in "Other corporations" includes four units in the name of Japan Securities Depository Center, Incorporated.

(6) Major Shareholders

As of December 31, 2021

Name	Address	Number of shares held (thousands of shares)	Percentage against total shares issued (excluding treasury shares) (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	2-11-3 Hamamatsucho, Minato-ku, Tokyo	16,402	17.83
Ichigo Trust Pte. Ltd. (Standing proxy: Custody Department, Tokyo branch, The Hongkong and Shanghai Banking Corporation Limited)	□ North Bridge Road, 06-08 High Street Centre, Singapore 179094 (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	9,552	10.39
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12, Harumi, Chuo-ku, Tokyo	4,419	4.80
SMBC Nikko Securities Inc.	3-3-1 Marunouchi, Chiyoda-ku, Tokyo	2,317	2.52
BBH (LUX) FOR FIDELITY FUNDS – SUSTAINABLE WATER AND WASTE POOL (Standing proxy: MUFG Bank, Ltd.)	2 A Rue Albert Borschette, Luxembourg, Luxembourg L-1246 (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	2,020	2.20
Japan Securities Finance Co., Ltd.	1-2-10 Kayabacho, Nihonbashi, Chuo-ku, Tokyo	1,656	1.80
BNYM AS AGT/CLTS 10 PERCENT (Standing proxy: MUFG Bank, Ltd.)	240 Greenwich Street, New York, New York 10286 U.S.A (2-7-1 Marunouchi, Chiyoda-ku, Tokyo)	1,643	1.79
STATE STREET BANK AND TRUST COMPANY 505225 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank Ltd.)	P.O. BOX 351 Boston Massachusetts 02101 U.S.A. (Shinagawa Intercity Tower A, 2-15-1, Konan, Minato-ku, Tokyo)	1,439	1.56
JPMorgan Securities Japan Co., Ltd.	Tokyo Building, 2-7-3 Marunouchi, Chiyoda-ku, Tokyo	1,364	1.48
STATE STREET BANK AND TRUST COMPANY 505103 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank Ltd.)	P.O. BOX 351 Boston Massachusetts 02101 U.S.A. (Shinagawa Intercity Tower A, 2-15-1, Konan, Minato-ku, Tokyo)	1,281	1.39
Total	-	42,097	45.77

1. The Company owns 3,536 thousand treasury shares, but they have been excluded from the major shareholders above.

2. In a change report pertaining to a report of possession of large volume available for public inspection as of October 7, 2021, it is stated that Nomura Securities Co., Ltd and its two joint holders collectively held 7,212 thousand shares (equivalent to a 7.55% holding ratio of share certificates, etc.) as of September 30, 2021. However, because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2021, they are not included in the aforementioned status of major shareholders.

   The detail of the report is as follows:

Name	Address	Number of share certificates, etc. held (thousands of shares)	Holding ratio of share certificates, etc. (%)
Nomura Securities Co., Ltd.	1-13-1 Nihonbashi, Chuo-ku, Tokyo	(1)	0
Nomura International plc	1 Angel Lane, London EC4R 3AB, U.K.	653	0.68
Nomura Asset Management Co., Ltd.	2-2-1 Toyosu, Koto-ku, Tokyo	6,560	6.87

3. In the change report pertaining to a report of possession of large volume available for public inspection as of May 11, 2021, it is stated that Sumitomo Mitsui Trust Bank, Limited and its two joint holders collectively held 5,539 thousand shares (equivalent to a 5.81% holding ratio of share certificates, etc.) as of April 30, 2021. However, because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2021, they are not included in the aforementioned status of major shareholders.

The detail of the report is as follows:

Name	Address	Number of share certificates, etc. held (thousands of shares)	Holding ratio of share certificates, etc. (%)
Sumitomo Mitsui Trust Bank, Limited	1-4-1, Marunouchi, Chiyoda-ku, Tokyo	250	0.26
Sumitomo Mitsui Trust Asset Management Co., Ltd.	1-1-1 Shibakoen, Minato-ku, Tokyo	2,846	2.98
Nikko Asset Management Co., Ltd.	9-7-1 Akasaka, Minato-ku, Tokyo	2,443	2.56

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

The detail of the report is as follows:

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

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

The detail of the report is as follows:

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

6. In the change report pertaining to a report of possession of large volume available for public inspection as of October 3, 2019, it is stated that Newton Investment Management Limited and its five joint holders collectively held 4,224 thousand shares (equivalent to a 4.14% holding ratio of share certificates, etc.) as of September 30, 2019. However, because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2021, they are not included in the aforementioned status of major shareholders.

The detail of the report is as follows:

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

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

The detail of the report is as follows:

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

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

The detail of the report is as follows:

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

(7) Voting Rights

(i) Shares Issued

As of December 31, 2021

Category	Number of shares (shares)	Number of voting rights (units)	Description
Shares with no voting rights	–	–	–
Shares with restricted voting rights (treasury shares, etc.)	–	–	–
Shares with restricted voting rights (other)	–	–	–
Shares with full voting rights (treasury shares, etc.)	(Treasury shares) Common shares 3,536,000	–	Standard shares of the Company with no restrictions on rights
Shares with full voting rights (other)	Common shares 91,818,600	918,186	Same as above
Shares of less than one unit	Common shares 159,033	–	Same as above
Total number of shares issued	95,513,633	–	–
Voting rights held by all shareholders	–	918,186	–

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

2. Common shares in the "Share less than one unit" section include 73 treasury shares held by the Company.

(ii) Treasury Shares.

As of December 31, 2021

Name of shareholder	Address of shareholder	Number of shares held in own name (shares)	Number of shares held in others' names (shares)	Total number of shares held (shares)	Percentage against total shares issued (%)
(Treasury shares) Kabushiki Kaisha Ebara Seisakusho	11-1, Haneda Asahi-cho, Ota-ku, Tokyo	3,536,000	–	3,536,000	3.70
Total	–	3,536,000	–	3,536,000	3.70

2. Acquisition of Treasury Shares

Class of Shares:

Acquisition of common shares under Article 155, Items 3, 7 and 13 of the Companies Act

(1) Acquisition by Resolution of General Meeting of Shareholders

Not applicable.

(2) Acquisition by Resolution of Board of Directors

Acquisition in accordance with Article 155, Item 3 of the Companies Act

Position	Number of shares (shares)	Total value (yen)
Status of resolution at the Board of Directors meeting (held on May 14, 2021) (Purchase period: May 17, 2021 to December 23, 2021)	5,200,000	20,000,000,000
Treasury shares acquired before the fiscal year ended December 31, 2021	–	–
Treasury shares acquired during the fiscal year ended December 31, 2021	3,513,400	19,999,129,457
Total number and value of remaining shares resolved	–	–
Unexercised ratio as of December 31, 2021 (%)	–	–
Treasury shares acquired during the period from January 1, 2022 until the filing date of this report	–	–
Unexercised ratio as of the date of filing (%)	–	–

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

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

Position	Number of shares (shares)	Total value (yen)
Treasury shares acquired during the fiscal year ended December 31, 2021	2,129	11,519,210
Treasury shares acquired during the period from January 1, 2022 until the filing date of this report	162	1,026,720

Note: The number of treasury shares acquired during the period from January 1, 2022 until the filing date of this report does not include shares less than one unit purchased during the period from March 1, 2022 to the filing date of this annual securities report.

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

Position	Number of shares (shares)	Total value (yen)
Treasury shares acquired during the fiscal year ended December 31, 2021	203	–
Treasury shares acquired during the period from January 1, 2022 until the filing date of this report	–	–

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

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

Position	Fiscal year ended December 31, 2021		From January 1, 2022 until the filing date of this report	
	Number of shares (shares)	Total amount of disposal (yen)	Number of shares (shares)	Total amount of disposal (yen)
Acquired treasury shares for which subscribers were solicited	–	–	–	–
Acquired treasury shares that were cancelled	–	–	3,513,400	19,903,094,794
Acquired treasury shares that were transferred for merger, share exchange, share issuance or company split	–	–	–	–
Other (sale of shares in response to additional purchase requests from shareholders holding shares less than one unit)	81	392,850	60	373,200
Treasury shares held	3,536,073	–	22,775	–

Note: The number of treasury shares held during the period from January 1, 2022 until the filing date of this report does not include shares less than one unit purchased or sold during the period from March 1, 2022 to the filing date of this annual securities report.

3. Dividend Policy

The Company regards the return of its profits to its shareholders as one of its most important management policies and has set a policy of linking dividends to performance. It aims for a consolidated payout ratio of 35.0% or more and has set a minimum of 2.0% for consolidated dividend on equity attributable to owners of parent. We will also flexibly consider acquisition of treasury shares.

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

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

Dividends of surplus for the fiscal year ended December 31, 2021 were as follows:

Resolution date	Total amount of dividends (millions of yen)	Dividends per share (yen)
August 13, 2021 Board of Directors Meeting	4,733	50.00
March 29, 2022 Ordinary General Meeting of Shareholders	10,393	113.00

4. Corporate Governance

(1) Overview of Corporate Governance

Basic views on corporate governance

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

EBARA Way

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

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

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

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

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

(i) Corporate Governance System

i) Overview of Corporate Governance System

Structure of organization

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

<Supervisory>

Board of Directors

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

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

As of March 30, 2022, the Board of Directors comprises ten (10) Directors, seven (7) of whom are Independent Directors (including three (3) females) with an Independent Director serving as Chairman of the Board of Directors.

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

Nomination Committee

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

As of March 30, 2022, the Nomination Committee comprises two (2) Independent Directors (Hajime Sawabe and Hiroshi Oeda) and one (1) Non-executive Inside Director (Toichi Maeda). Hajime Sawabe, an Independent Director, serves as Chairperson of the Nomination Committee.

Compensation Committee

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

As of March 30, 2022, the Compensation Committee comprises three (3) Independent Directors (Mie Fujimoto, Junko Nishiyama, and Takuya Shimamura). Mie Fujimoto, an Independent Director, serves as Chairperson of the Compensation

Committee.

Audit Committee

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

As of March 30, 2022, the Audit Committee comprises two (2) Independent Directors (Masahiro Hashimoto and Hisae Kitayama) and one (1) Inside Director (Akihiko Nagamine). Masahiro Hashimoto, an Independent Director, serves as Chairperson of the Audit Committee. Members of the Audit Committee include, Masahiro Hashimoto, who has held the position of Division Executive of Finance of another company, Hisae Kitayama, a certified public accountant, and Akihiko Nagamine, who has held the position of Division Executive of Finance & Corporate Accounting Division of the Company. All of them have considerable knowledge of finance and accounting.

Executive Session

The Executive Session, comprising only Independent Directors, has been established as a venue for Independent Directors to freely discuss matters necessary to fulfill their responsibilities. The Lead Independent Director, who is elected by mutual voting, serves as Chairperson of the Session. As of March 30, 2022, Hajime Sawabe serves as Lead Independent Director.

Business Execution

Executive Officers

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

As of March 30, 2022, there are fifteen (15) Executive Officers. The Company is considering appointment of female Executive Officers in the future from the standpoint of diversity.

[Meeting bodies for business execution]

a. Management Meeting

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

b. Management Planning Committee

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

c. Risk Management Panel

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

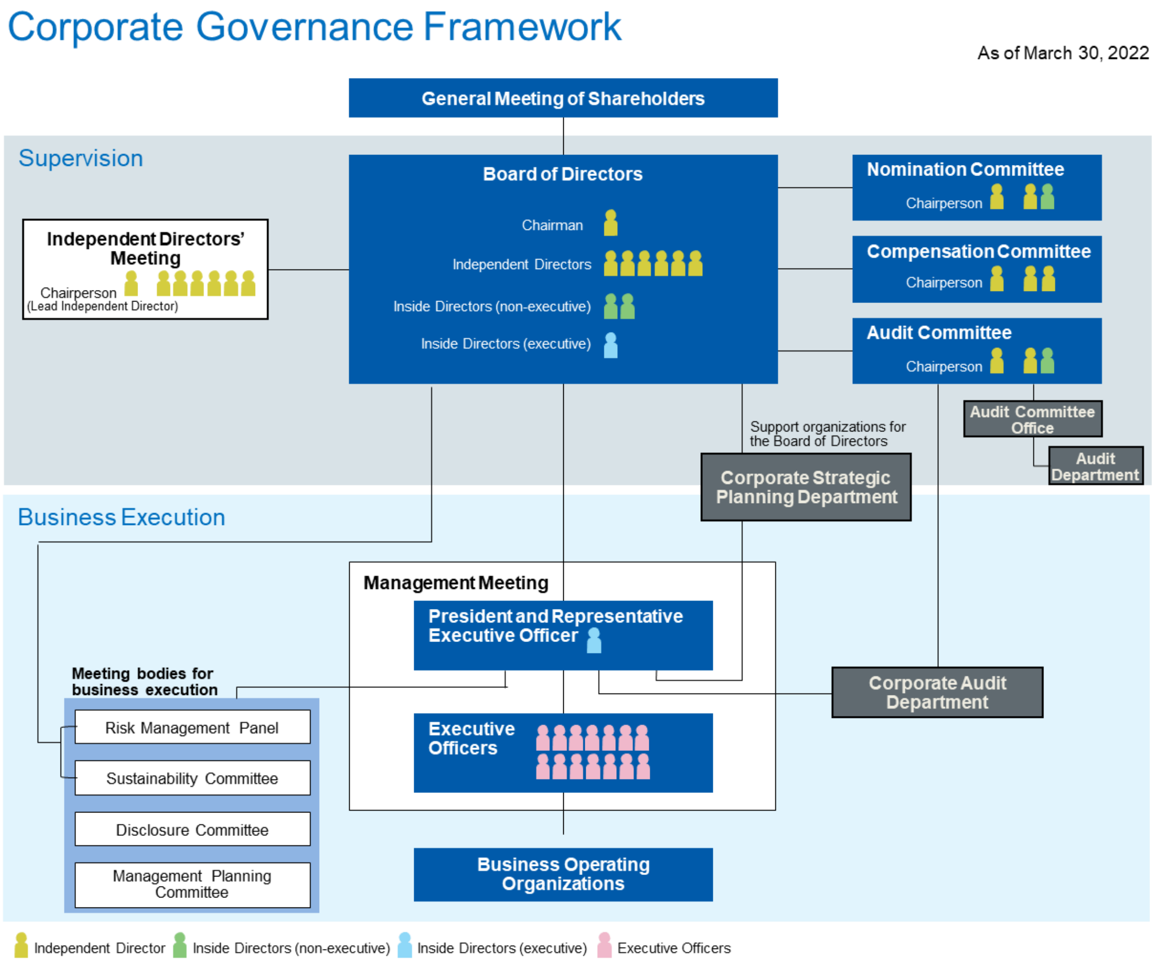
d. Sustainability Committee

The Sustainability Committee has been established to discuss policies of businesses and supporting activities, and decide on KPIs and targets, as well as verify outcomes so that Ebara Group may contribute to building sustainable society/environment through business activities and continue to raise its corporate value. The Sustainability Committee is chaired by the President and Representative Executive Officer, Executive Officers serve as members, and the outside experts in sustainability management 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 Sustainability Committee, and providing advice and the like as necessary. The Sustainability Committee reports its deliberations to the Board of Directors, and there is a system in place to enable the Board of Directors to exhibit supervisory functions by accurately grasping information. The Sustainability Committee is held regularly on a quarterly basis.

e. Disclosure Committee

The Disclosure Committee has been established as a companywide organization to provide fair, timely and appropriate disclosure of corporate information such as the occurrence of incidents, decisions and financial information pertaining to the Group as a whole. The Disclosure Committee collects without omission corporate information subject to determining whether or not to be disclosed and discusses whether to disclose the information, disclosed contents thereof and the timing of the disclosure, and reports to the President and Representative Executive Officer. Furthermore, it carries out disclosure procedures after completion of internal authorization procedures.

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



ii) Reasons for Adopting This System

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

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

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

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

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

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

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

iii) Outline of the Contents of the Liability Limitation Agreement

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

iv) Overview of the Directors and Officers Liability Insurance Contract

a. Insured Parties

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

b. Overview of the Insurance Contract

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

v) Status of Development and Operation of Internal Control System

An overview of the content resolved by the Company in the Board of Directors as a system for ensuring appropriate operations (basic policy) and the state of operation of the system for fiscal year 2021 is provided below. Every year, Executive Officers perform self-evaluations on the establishment and operation of internal controls, and the areas that should be improved are reflected in the next year’s plan based on the results, and we will continue to make improvements in the future.

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

[Basic Approach]

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

[Development and Operation]

1) The Company has established a division for promoting compliance, which supports the creation of systems for raising awareness of compliance and preventing misconduct and the establishment of a friendly and open work environment in the Company and its subsidiaries.
2) Disciplinary provisions on violations of the “EBARA Group Code of Conduct” and internal rules are stipulated in the service rules and employment regulations, etc., of the Company and its subsidiaries.
3) The Sustainability Committee, chaired by the President and Representative Executive Officer, deliberates on policies, strategies, targets and KPIs for activities that contribute to society, the environment and the Group's sustainability, and confirms and reviews the results. The Committee also monitors the compliance status of the Company and its subsidiaries and gives instructions for corrective actions and improvements as appropriate. In fiscal year 2021, four meetings of the committee were held in the fiscal year under review.
4) The Compliance Consultation Counter that can be used by the Company and domestic subsidiaries and the “Regulations for the Operation of the Compliance Consultation Counter” has been established to promptly address any reports or inquiries on violations of the “EBARA Group Business Ethics Framework,” internal regulations and laws, etc. in the Ebara Group. Furthermore, whistleblowing contacts via external law firms (Overseas EBARA Group hotlines) are established for a total of twenty subsidiaries in nine countries overseas

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

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

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

[Basic Approach]

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

[Development and Operation]

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

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

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

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

[Basic Approach]

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

[Development and Operation]

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

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

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

[Basic Approach]

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

[Development and Operation]

1) Authority responsibilities, and procedures are set out in the "Authority Rules," etc., of the Company and its subsidiaries, whereby risk management is conducted.

2) Departments responsible for promoting risk management activities are in place, while policies and systems for risk management at the Company and its subsidiaries are set out under the "Risk Management Regulations," whereby risk management activities are carried out.

3) The Risk Management Panel (hereinafter referred to as "RMP") for the overall Group is in place as a body responsible for

coordinating risk management activities while carrying out deliberation, guidance for improvement, and support. The RMP is chaired by the President and Representative Executive Officer and made up of all Executive Officers. In addition to quarterly meetings, meetings are held as required. In fiscal 2021, a total of 12 meetings were held.

(4) With regard to the spread of the new coronavirus infection, we have set up a task force in accordance with the regulations and are continuing activities such as collecting information and deploying countermeasures to the EBARA Group

(5) The Company continues to strengthen the information security management system of the entire EBARA Group in preparation for cyber attacks from outside.

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

[Basic Approach]

1) The Company clarifies the division of duties in the business execution functions of Executive Officers of the Company and Directors of its subsidiaries.

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

[Development and Operation]

1) The Board of Directors of the Company entrusts the authority and responsibility for the execution of business to Executive Officers and ensures the efficient execution of duties by Executive Officers by supervising the execution of duties by Executive Officers.

2) The administrative authority of Executive Officers of the Company and Directors of its subsidiaries is set out in the "Regulations on the Division of Duties" of the Company and its subsidiaries.

3) The Company's Board of Directors formulates basic management policies, and these policies are reflected in the annual management plans of the Company and its subsidiaries. As for return on invested capital (ROIC), the most important management indicator (KPI), we confirm the progress at KPI monitoring meetings.

4) Executive Officers of the Company review the progress of annual management plans and measures for their achievement on a quarterly basis in the Management Planning Committee.

5) The Management Meeting made up of all Executive Officers is in place as a meeting structure for deliberation necessary for facilitating prompt decision making by the President and Representative Executive Officer. The Management Meeting is held once every month.

f. Systems for Shutting Out Anti-social Elements

[Basic Approach]

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

[Development and Operation]

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

Furthermore, investigations of business partners, internal education, and the like are conducted based on the "Guidelines on Shutting Out Anti-social Elements," in addition to periodically holding liaison meetings attended by personnel responsible for preventing undue claims in the Company and domestic subsidiaries. In fiscal 2021, one meeting was held.

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

[Basic Approach]

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

[Development and Operation]

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

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

[Basic Approach]

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

[Development and Operation]

1) The Audit Committee Office has been established as a department that assists the Audit Committee in the execution of its duties.
2) The Company appoints employees who are to assist the Audit Committee in its duties (hereinafter referred to as "assistant employees of the Audit Committee" or "assistant employees") and assign them to the Audit Committee Office. In fiscal year 2021, 15 employees belonged to the Audit Committee Office, of which 5 were engaged in administrative work related to the Audit Committee as fulltime assistant employees. The other 10 employees were mainly engaged in the internal audit division or as auditors of subsidiaries, and were concurrently employed by the Audit Committee Office as assistant employees. The assistant employees of the Audit Committee may also serve as auditors of subsidiaries for the purpose of ensuring the internal control of the corporate group.

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

[Basic Approach]

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

[Development and Operation]

1) The appointment of assistant employees to the Audit Committee is determined with the consent of the Audit Committee, in principle.
2) Full-time assistant employees to the Audit Committee are not concurrently engaged in business operations concerning the

execution of duties by Executive Officers of the Company. Assistant employees to the Audit Committee act under the instruction of the Audit Committee, thereby ensuring the effectiveness of instructions of the Audit Committee.

3) In case the instructions from the Audit Committee conflict with the instructions from the Executive Officers or the general manager of the department to which they are concurrently assigned, the internal rules stipulate that the instructions from the Audit Committee shall take precedence, thereby ensuring the effectiveness of the instructions from the Audit Committee.

4) With the prior consent of the Audit Committee, assistant employees to the Audit Committee are engaged by the auditors of Group companies.

5) Personnel transfer, appraisal, and the like of the assistant employees to the Audit Committee are determined upon obtaining the consent of the Audit Committee.

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

[Basic Approach]

1) The Company develops, maintains, and operates a system whereby the Audit Committee members are able to attend important meetings of departments engaging in business execution, and to receive reports from Executive Officers and employees, etc.

2) The Company develops, maintains, and operates a system whereby Directors, Audit & Supervisory Board Members and employees, etc., of subsidiaries in addition to persons receiving reports therefrom report to the Audit Committee.

3) Any person having made a report under the two preceding paragraphs shall not be subject to disadvantageous treatment because of such reporting.

[Development and Operation]

1) The Audit Committee members view important documents and receive reports on the execution of duties from Executive Officers and employees, etc., by attending important meetings of departments engaging in business execution such as the Management Meeting, the Sustainability Committee, and the RMP.

2) Executive Officers promptly report to the Audit Committee pursuant to the “Executive Officer Rules” in the event they discover a fraudulent act in the course of executing their duties, and such act is not redressed immediately.

3) In the course of audits by the Audit Committee, the Company and its subsidiaries provide information on the handling of management tasks and the legality and appropriateness of their business operations upon the request of the Audit Committee.

4) The Compliance Consultation Counter that can be used by the Company and domestic subsidiaries and the “Regulations for the Operation of the Compliance Consultation Counter” have been established to promptly address any reports or inquiries on violations of the “EBARA Group Business Ethics Framework,” internal regulations, and laws, etc. in the Group. Furthermore, whistleblowing contacts via external law firms (Overseas EBARA Group hotlines) have been established for a total of 20 subsidiaries in nine overseas countries. Reports on the state of implementation of these are made to the Audit Committee as appropriate.

5) The Audit Committee established the Audit Committee helpline, allowing reports to be received on the violation of laws and regulations in the Company and its subsidiaries, in addition to other issues concerning corporate ethics, and a system is in place for employees, etc. of the Company and its subsidiaries to report to the Audit Committee if the Company’s Directors, Executive Officers, or Directors of its subsidiaries commit fraud, violate laws, regulations or the Articles of Incorporation, conduct improper accounting practices, have corporate ethics issues or are otherwise found to be grossly inappropriate for management of the Company.

6) The Company thoroughly ensures a system whereby any person having reported to the Audit Committee is not subject to disadvantageous treatment because of such reporting.

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

[Basic Approach]

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

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

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

[Development and Operation]

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

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

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

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

l. Systems for Ensuring the Credibility of Financial Reports

[Basic Approach]

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

[Development and Operation]

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

2) In the assessment, the scope of assessment is set each fiscal year in consideration of the impact on financial reporting, management importance, etc., and the assessment is conducted by an assessment team independent of operations to improve and promote internal control. We have adopted International Financial Reporting Standards (IFRS) from fiscal year 2021, but this has had no impact on the subject, scope, or method of internal control evaluation.

vi) Development of Risk Management System

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

(ii) Quorum of Directors

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

(iii) Requirements for Resolution for Election of Directors

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

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

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

i) Exemption from Director and Executive Officer Liability

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

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

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

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

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

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

(2) Directors and Other Officers

(i) List of Directors and Other Officers

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

i) Directors

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Chairman & Director Member of the Nomination Committee	Toichi Maeda	December 24, 1955	April 1981 April 2007 April 2010 April 2011 June 2011 April 2012 April 2013 June 2015 March 2019 March 2019	Joined the Company Executive Officer of the Company Managing Executive Officer of the Company Head of Business Unit, Custom Pump Business Unit, Fluid Machinery & Systems Company of the Company Director of the Company President, Fluid Machinery & Systems Company of the Company President and Representative Director of the Company President, Representative Executive Officer of the Company Chairman & Director of the Company (to present) Member of the Nomination Committee of the Company (to present)	(Note 2)	306
Director	Masao Asami	April 7, 1960	April 1986 April 2010 April 2011 April 2014 June 2015 April 2016 March 2019 March 2019	Joined the Company Executive Officer of the Company Division Executive, Sales and Marketing Division, Precision Machinery Company of the Company Managing Executive Officer of the Company Managing Executive Officer of the Company (Change in Japanese only; English unchanged) President, Precision Machinery Company of the Company Director of the Company (to present) President, Representative Executive Officer of the Company (to present)	(Note 2)	264

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Director Member of the Nomination Committee	Hajime Sawabe	January 9, 1942	April 1964	Joined Tokyo Denki Kagaku Kogyo K.K. (currently TDK Corporation)	(Note 2)	18
			June 1996	Director, Executive Vice President of Recording Device Business, TDK Corporation		
			June 1998	President & Representative Director, TDK Corporation		
			June 2006	Chairman & Representative Director, TDK Corporation		
			March 2008	Outside Director, Asahi Glass Co., Ltd. (currently AGC Inc.) (Retired in March 2014)		
			June 2008	Outside Director, TEIJIN LIMITED (Retired in June 2016)		
			June 2008	Outside Director, Nomura Securities Co., Ltd. (Retired in June 2011)		
			June 2009	Outside Director, Nomura Holdings, Inc. (Retired in June 2011)		
			March 2011	Outside Audit & Supervisory Board Member, Nikkei Inc. (Retired in March 2019)		
			June 2011	Director, Chairman of the Board of Directors, TDK Corporation		
			October 2011	Councilor, Waseda University		
			April 2012	Executive Adviser, Japan Management Association (Retired in March 2018)		
			June 2012	Executive Advisor, TDK Corporation (Retired in March 2019)		
			July 2014	Vice President, Board of Trustees, Waseda University		
			June 2015	Outside Director, Japan Display Inc. (Retired in June 2017)		
			June 2015	Director of the Company (to present)		
			June 2015	Member of the Compensation Committee of the Company		
			July 2018	President, Board of Trustees, Waseda University (to present)		
			April 2019	Adviser to the Executive Board, Value Creation 21 (to present)		
			March 2020	Chairperson of the Compensation Committee of the Company		
			June 2021	Outside Director, TV TOKYO Holdings Corporation (to present)		
			March 2022	Lead Independent Director of the Company (to present) Chairperson of the Nomination Committee of the Company (to present)		

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Director Member of the Nomination Committee Chairman of the Board of Directors	Hiroshi Oeda	March 12, 1957	April 1980	Joined Nisshin Flour Milling Inc. (currently Nisshin Seifun Group Inc.)	(Note 2)	18
			June 2009	Director, Nisshin Seifun Group Inc.		
			April 2011	Director and President, Nisshin Seifun Group Inc.		
			April 2015	Member of Management Council, Hitotsubashi University		
			April 2017	Director and Executive Adviser, Nisshin Seifun Group Inc.		
			June 2017	Corporate Special Adviser, Nisshin Seifun Group Inc. (to present)		
			June 2017	President, Seifun Kaikan Inc. (to present)		
			December 2017	Member, The Japanese National Commission for UNESCO		
			March 2018	Director of the Company (to present)		
			March 2018	Member of the Nomination Committee of the Company		
			June 2018	Outside Director, SEKISUI CHEMICAL CO., LTD. (to present)		
			March 2019	Chairperson of the Nomination Committee of the Company		
			June 2019	President, Hitotsubashi University Koenkai (to present)		
			March 2020	Lead Independent Director of the Company		
			December 2020	Vice-Chairperson, The Japanese National Commission for UNESCO (to present)		
			March 2022	Chairman of the Board of Directors of the Company (to present)		
			March 2022	Member of the Nomination Committee of the Company (to present)		

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Director Member of the Audit Committee	Masahiro Hashimoto	August 28, 1948	April 1972 November 1998 July 1999 June 2001 June 2004 June 2005 April 2014 June 2015 April 2016 March 2018 March 2018 March 2019 March 2021	Joined The Daiwa Bank, Limited (currently Resona Bank, Limited) President, Bank Daiwa Perdania (Indonesia) General Manager of International Division, The Daiwa Bank, Ltd. (Retired in June 2001) Managing Director and General Manager of Financial Department, Dainippon Screen Mfg. Co., Ltd. (currently SCREEN Holdings Co., Ltd.) Senior Managing Director, Dainippon Screen Mfg. Co., Ltd. Representative Director, President and Chief Operating Officer, Dainippon Screen Mfg. Co., Ltd. Vice Chairman, Dainippon Screen Mfg. Co., Ltd. Senior Advisor (part-time), Dainippon Screen Mfg. Co., Ltd. (Retired in March 2016) Industrial Promotion Advisor, Kumamoto Prefecture (Retired in March 2022) Director of the Company (to present) Member of the Audit Committee of the Company Member of the Compensation Committee of the Company Chairperson of the Audit Committee of the Company (to present)	(Note 2)	18
Director Member of the Compensation Committee	Junko Nishiyama	January 10, 1957	April 1979 March 2006 March 2007 January 2009 January 2014 March 2015 March 2019 March 2019 March 2019 June 2019 June 2020 March 2021	Joined Lion Fat & Oil Co., Ltd. (currently Lion Corporation) Director, Finished Product Department, Purchasing Headquarters, Lion Corporation Director, Finished Product Purchasing, Production Coordinating Department No. 2, Production Headquarters, Lion Corporation Director, Packaging Engineering Research Laboratories, Research & Development, Headquarters, Lion Corporation Director, CSR Promotion Department, Lion Corporation Standing Corporate Auditor, Lion Corporation Advisor, Lion Corporation (Retired in March 2021) Director of the Company (to present) Member of the Audit Committee of the Company Outside Director, JACCS CO., LTD. (to present) Outside Auditor, TODA CORPORATION (to present) Member of the Compensation Committee of the Company (to present)	(Note 2)	15

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Director Member of the Compensation Committee	Mie Fujimoto	August 17, 1967	April 1993	Registered as an attorney at law (to present)	(Note 2)	12
			April 1993	Joined New Tokyo Sogoh Law Office		
			June 2009	Outside Corporate Auditor, Kuraray Co., Ltd.		
			April 2015	Joined TMI Associates (to present)		
			June 2015	Outside Audit & Supervisory Board Member, SEIKAGAKU CORPORATION (to present)		
			June 2016	Outside Audit & Supervisory Board Member, Tokyo Broadcasting System Holdings, Inc. (currently TBS Holdings, Inc.) (to present)		
			June 2016	(Audit & Supervisory Board Member, Tokyo Broadcasting System Television, Inc.) (to present)		
			March 2019	Outside Director, Kuraray Co., Ltd. (Retired in March 2020)		
			March 2020	Director of the Company (to present)		
			March 2020	Member of the Compensation Committee of the Company		
			March 2022	Chairperson of the Compensation Committee of the Company (to present)		

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Director Member of the Audit Committee	Hisae Kitayama	August 30, 1957	October 1982 March 1986 May 1999 July 2013 June 2019 July 2019 July 2019 June 2020 July 2020 March 2021 March 2021	Joined Asahi Accounting Company (currently KPMG AZSA LLC) Registered as a certified public accountant (to present) Partner, Asahi Accounting Company (currently KPMG AZSA LLC) Managing Executive Director, KPMG AZSA LLC Chairman, Kinki Chapter of Japanese Institute of Certified Public Accountants (to present) Deputy Chairman, Japanese Institute of Certified Public Accountants (to present) Senior Executive Director, KPMG AZSA LLC (Retired in June 2020) Outside Director, Tsubakimoto Chain Co. (to present) Representative, Kitayama Public Accounting Office (to present) Director of the Company (to present) Member of the Audit Committee of the Company (to present)	(Note 2)	7
Director Member of the Audit Committee	Akihiko Nagamine	May 5, 1958	April 1982 June 2006 July 2010 April 2014 April 2015 June 2015 June 2015 March 2021 March 2021	Joined EBARA DENSAN LTD. Director, EBARA DENSAN LTD. Joined the Company, General Manager, Investment and Affiliates Supervision Department, Finance & Corporate Accounting Division Division Executive, Finance and Accounting Division Executive Officer (*shikkou yakuin*) of the Company Executive Officer (*shikkou yaku*) of the Company Responsible for Finance and Accounting, Group Management, and Internal Control Director of the Company (to present) Member of the Audit Committee of the Company (to present)	(Note 2)	133
Director Member of the Compensation Committee	Takuya Shimamura	December 25, 1956	April 1980 January 2009 January 2010 January 2013 January 2015 March 2015 January 2021 March 2021 March 2022 March 2022	Joined Asahi Glass Co., Ltd. (currently AGC Inc.) Executive Officer and GM of Planning & Coordination Office, Chemicals Company, Asahi Glass Co., Ltd. Executive Officer and President, Chemicals Company, Asahi Glass Co., Ltd. Senior Executive Officer and President, Electronics Company, Asahi Glass Co., Ltd. President & CEO, Asahi Glass Co., Ltd. Representative Director and President & CEO, Asahi Glass Co., Ltd. Chairman & Representative Director, AGC Inc. Director and Chairman, AGC Inc. (to present) Director of the Company (to present) Member of the Compensation Committee of the Company (to present)	(Note 2)	-
Total						792

Notes: 1. Directors Hajime Sawabe, Hiroshi Oeda, Masahiro Hashimoto, Junko Nishiyama, Mie Fujimoto, Hisae Kitayama, and

Takuya Shimamura are Independent Directors.

2. The terms of office of the Directors shall be from the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ended December 31, 2021 to the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ending December 31, 2022.
3. The Company is a Company with Three Board Committees. The Company's committees are as follows:
   Nomination Committee: Hajime Sawabe (Chairperson), Hiroshi Oeda, and Toichi Maeda
   Compensation Committee: Mie Fujimoto (Chairperson), Junko Nishiyama, and Takuya Shimamura
   Audit Committee: Masahiro Hashimoto (Chairperson), Hisae Kitayama, and Akihiko Nagamine
   The Chairperson of each of the committees is elected by a resolution of the Board of Directors.

ii) Executive Officers

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
President and Representative Executive Officer	Masao Asami	April 7, 1960	See "i) Directors."		(Note)	See "i) Directors."
Executive Officer President, Fluid Machinery & Systems Company, and concurrently appointed to Chillers Business of Fluid Machinery & Systems Company	Shu Nagata	March 17, 1968	April 1990 October 2008 April 2017 March 2018 March 2018 March 2019 January 2020 March 2022 March 2022	Joined the Company Ebara Pumps Europe S.p.A. Managing Director General Manager, Global Sales and Marketing Department, Standard Pump Business Division, Fluid Machinery & Systems Company of the Company Executive Officer of the Company (to present) Division Executive, Corporate Strategic Planning Division of the Company Division Executive, Human Resources Division of the Company Division Executive, Corporate Strategic Planning and Human Resources Division of the Company President, Fluid Machinery & Systems Company of the Company (to present) Chillers Business of Fluid Machinery & Systems Company of the Company (to present)	(Note)	75
Executive Officer Division Executive, Standard Pump Business Division, Fluid Machinery & Systems Company, Chairman, Ebara Machinery (China) Co., Ltd.	Yoshiaki Okiyama	January 25, 1960	April 1983 April 2011 April 2017 March 2018 March 2018 March 2018 March 2019 March 2020	Joined the Company Executive Officer of the Company Division Executive, Strategy and Technology Management Division, Fluid Machinery & Systems Company of the Company Executive Officer of the Company Division Executive, Standard Pump Business Division, Fluid Machinery & Systems Company of the Company (to present) Chairman, Ebara Machinery (China) Co., Ltd. (to present) Managing Executive Officer of the Company Executive Officer of the Company (to present)	(Note)	134
Executive Officer Division Executive, Custom Pump Division, Fluid Machinery & Systems Company, and concurrently appointed to Chairman, EBARA GREAT PUMPS CO., LTD. Chairman, EBARA MACHINERY ZIBO CO., LTD.	Hideki Yamada	May 31, 1961	April 1985 April 2013 April 2015 April 2015 April 2016 January 2019 October 2019 October 2019 January 2020 March 2020	Joined the Company Executive Officer of the Company Deputy Division Executive, China and East Asia Department, Strategy and Technology Management Division, Fluid Machinery & Systems Company of the Company Chairman, EBARA GREAT PUMPS CO., LTD. (to present) Division Executive, China and East Asia Department, Strategy and Technology Management Division, Fluid Machinery & Systems Company of the Company Division Executive, Industrial Pump Division, Fluid Machinery & Systems Company Managing Executive Officer of the Company Division Executive, Custom Pump Division, Fluid Machinery & Systems Company (to present) Chairman, EBARA MACHINERY ZIBO CO., LTD. (to present) Executive Officer of the Company (to present)	(Note)	45

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Executive Officer Division Executive, System Business Division, Fluid Machinery & Systems Company	Teruyuki Ota	April 26, 1971	April 1994 April 2017 April 2021 March 2022 March 2022	Joined the Company General Manager, Recruiting and HR Development Department, Human Resources, Legal and General Affairs Division General Manager, Infrastructure Systems Sales Department, System Business Division, Fluid Machinery Systems Company of the Company Executive Officer of the Company (to present) Division Executive, System Business Division, Fluid Machinery Systems Company of the Company (to present)	(Note)	-

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Executive Officer Responsible for Compressors and Turbines Business, Fluid Machinery & Systems Company Elliott Company CEO	Takanobu Miyaki	September 22, 1972	April 1996 March 2020 March 2020 March 2021 March 2022 March 2022 March 2022 March 2022	Joined the Company Vice President, Elliott Group Holdings, Inc. Elliott Company Vice President Director, Elliot Group Holdings, Inc. Director and CEO, Elliot Group Holdings, Inc. (to present) CEO, Elliott Company (to present) Executive Officer of the Company (to present) Responsible for Compressors and Turbines Business, Fluid Machinery & Systems Company (to present)	(Note)	-
Executive Officer President, Environmental Engineering Company, and concurrently appointed to Chairman and Representative Director, Ebara Environmental Plant Co., Ltd.	Atsuo Ohi	February 20, 1957	April 1981 April 2008 October 2008 April 2010 April 2011 April 2012 June 2012 April 2013 April 2014 June 2015 March 2018 March 2018 January 2019 March 2020	Joined the Company Executive Officer of the Company Division Executive, Corporate Strategy Planning Division Managing Executive Officer of the Company Head of Business Unit, Global Marketing & Sales Business Unit, Fluid Machinery & Systems Company of the Company Vice President, Fluid Machinery & Systems Company, Head of Business Unit, Global Pump Business Unit, Fluid Machinery & Systems Company Director of the Company President, Fluid Machinery & Systems Company of the Company Senior Managing Executive Officer of the Company Senior Managing Executive Officer of the Company President, Environmental Engineering Company (to present) President and Representative Director of Ebara Environmental Plant Co., Ltd. Chairman and Representative Director of Ebara Environmental Plant Co., Ltd. (to present) Executive Officer of the Company (to present)	(Note)	167
Executive Officer President, Precision Machinery Company	Tetsuji Togawa	April 13, 1963	April 1986 April 2013 April 2014 March 2019 March 2019 March 2020	Joined the Company Division Executive, New Business Development Division, Precision Machinery Company of the Company Executive Officer of the Company Senior Managing Executive Officer of the Company President, Precision Machinery Company of the Company (to present) Executive Officer of the Company (to present)	(Note)	151
Executive Officer Division Executive, Equipment Division, Precision Machinery Company	Isao Nambu	April 14, 1974	April 1997 January 2020 January 2022 March 2022	Joined the Company Division Executive, Marketing Division of the Company Division Executive, Equipment Division, Precision Machinery Company of the Company (to present) Executive Officer of the Company (to present)	(Note)	11

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Executive Officer Division Executive, Components Business Division, Precision Machinery Company of the Company Chairman, Ebara Precision Machinery Taiwan Incorporated	Seiichi Tsuyuki	April 20, 1971	April 1992	Joined the Company	(Note)	3
			April 2021	Chairman, Ebara Precision Machinery Taiwan Incorporated (to present)		
			January 2022	Division Executive, Components Business Division, Precision Machinery Company of the Company (to present)		
			March 2022	Executive Officer of the Company (to present)		
Executive Officer Division Executive, Corporate Strategic Planning, Finance and Accounting Division	Shugo Hosoda	September 1, 1966	October 1993	Joined the Company	(Note)	60
			April 2015	Division Executive, Governance Promotion Division of the Company		
			April 2016	Deputy Vice President, Elliott Group Holdings, Inc.		
			April 2016	Deputy Vice President, Elliott Company		
			January 2018	Vice President, Elliott Group Holdings, Inc.		
			January 2018	Vice President, Elliott Company		
			March 2021	Executive Officer (to present)		
			March 2021	Division Executive, Finance and Accounting Division		
			March 2022	Division Executive, Corporate Strategic Planning, Finance and Accounting Division (to present)		

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Executive Officer Division Executive, Human Resources Division	Yoji Sato	July 18, 1964	April 1987	Joined the Company	(Note)	35
			April 2011	Division Executive, Planning Division, Ebara Environmental Plant Co., Ltd.		
			April 2012	General Manager, EBARA QINGDAO CO., LTD.		
			April 2017	Division Executive, Sales Division, Ebara Environmental Plant Co., Ltd.		
			January 2019	Director of Ebara Environmental Plant Co., Ltd.		
			March 2022	Executive Officer of the Company (to present)		
			March 2022	Division Executive, Human Resources Division of the Company (to present)		
Executive Officer Division Executive, Legal, Internal Control, Risk Management and General Affairs Division	Toru Nakayama	June 5, 1959	September 2014	Joined the Company	(Note)	52
			January 2018	Division Executive, Internal Control and Risk Management Division of the Company		
			March 2018	Executive Officer of the Company (to present)		
			March 2018	Division Executive, Legal, Internal Control, Risk Management and General Affairs Division (to present)		
Executive Officer Division Executive, Information & Communication System Division	Hiroyuki Kowase	November 22, 1963	April 2014	Executive Officer and CIO General Manager, IT Promotion Headquarters, LIXIL Corporation	(Note)	27
			December 2015	Senior Managing Executive Officer and CIO General Manager, Information Systems Headquarters, LIXIL Corporation		
			July 2018	Deputy Chief Global Information Technology Officer, Department Director, ICT Strategy & Platform Department, Shiseido Company, Limited		
			December 2018	Joined the Company		
			April 2019	Division Executive, Information & Communication System Division of the Company (to present)		
			March 2020	Executive Officer of the Company (to present)		
Executive Officer Division Executive, Technologies, R&D & Intellectual Property Division Division Executive, Advanced Technology Division, Precision Machinery Company	Hiroshi Sobukawa	May 19, 1962	April 1987	Joined the Company	(Note)	50
			April 2015	Executive Officer of the Company		
			April 2015	Division Executive, Advanced Technology Division, Precision Machinery Company of the Company		
			April 2017	Division Executive, Technologies and R&D Division		
			March 2019	Executive Officer of the Company (to present)		
			March 2019	Responsible for Technologies, R&D & Intellectual Property		
			January 2022	Division Executive, Technologies, R&D & Intellectual Property Division (to present)		
		Total				815

Notes: The terms of office of the Executive Officers shall be from the conclusion of the first meeting of the Board of Directors held after the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ended December 31, 2021 to the conclusion of the first meeting of the Board of Directors held after the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ending December 31, 2022.

(ii) Independent Directors and Other Officers

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

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

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

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

(3) Auditing Status

(i) Auditing Status by the Audit Committee

i) Organization, Personnel, and Procedures of Audit Committee

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

ii) Activities of the Audit Committee

During the fiscal year ended December 31, 2021, the Company held 20 meetings of the Audit Committee. The attendance of each Audit Committee member is as follows.

Position	Name	Attendance
Full-time Audit Committee member	Akihiko Nagamine	16 (100%)
Independent (Part-time) Audit Committee member	Masahiro Hashimoto	20 (100%)
	Hisae Kitayama	16 (100%)

Note: Akihiko Nagamine and Hisae Kitayama were newly elected as a Director at the 156th Ordinary General Meeting of Shareholders held on March 26, 2021 and appointed as an Audit Committee member at the meeting of the Board of Directors held on the same day; therefore, their attendance at the Audit Committee held on the same day and thereafter is described.

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

・Verification of the appropriateness of accounting treatments applied for the optional adoption of IFRS and other important accounting matters

・Progress on KPIs by business related to asset efficiency, etc.

・Progress on the medium-term management plan: E-Plan 2022

・Management and supervision of Group companies including overseas subsidiaries, such as the integration process after M&A

・Development of information and communications infrastructures, such as implementing Group-wide ERP plan and information security system

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

- The Audit Committee shares recognition pertaining to management issues and business risks and exchanges opinions with the executive branch, including triannual hearings with the President and Representative Executive Officer, and annual hearing from each Executive Officer in charge of the president of Fluid Machinery & Systems Company, Environmental Engineering Company, and Precision Machinery Company.
- The Audit Committee attends meetings of the Management Meeting, the Sustainability Committee, the Risk Management Panel, and other important meetings as well as the Board of Directors to improve the effectiveness and efficiency of audits, and maintains an accurate and up-to-date understanding of relevant information. Advice is also provided to the executive team as necessary.
- For coordination with Internal Audit Division and Independent Auditor, the Audit Committee strives to conduct efficient audits through mutual coordination with Internal Audit Division and Independent Auditor described in "(ii) Internal Audit."
- The Audit Committee examines documents related to the approval of important matters to confirm that decisions are made appropriately in accordance with internal rules.
- On-site audits are performed at domestic and overseas offices, operating sites, and subsidiaries, and members of the Audit Committee observe internal audits by the executive branch and audits by the Independent Auditor as necessary to confirm that internal control systems are functioning effectively at the Company and across the Group. In fiscal 2021, as in the previous fiscal year, to cope with the spread of COVID-19, the Audit Committee worked to utilize remote auditing, including interview surveys using a web conferencing system.
- The Group Auditor Conferences are held twice a year and attended by the auditors of subsidiaries and receive business reports from the subsidiaries, if necessary.

(ii) Internal Audit

The Company established Corporate Audit Department (27 employees as of the filing date of the Annual Securities Report) as the Internal Audit Division, which integrates internal control and response functions to internal whistleblowing hotlines. The Company verifies the effectiveness of the internal control system of the Company and its subsidiaries through internal audits of each business operation and evaluation of internal control over financial reporting. The Corporate Audit Department conducts internal audits in accordance with the annual internal audit plan based on the "Internal Audit Rules" and evaluates the effectiveness of internal control over financial reporting in accordance with the Financial Instruments and Exchange Act.

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

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

(iii) Accounting Audit

i) Name of Audit Firm

Ernst & Young ShinNihon LLC

ii) Period of Continuous Auditing

14 fiscal years

Continued since 144th fiscal year ended March 31, 2009

iii) Certified Public Accountants Who Executed the Audit Duties

Mineo Kanbayashi

Kiomi Horikoshi

Takayuki Ando

iv) Composition of Assistants to Audit Work

27 certified public accountants

43 others

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

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

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

a. Dismissal Policy

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

b. Policy on Refusal of Reappointment

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

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

However, the same Independent Auditor may only serve for a period of up to twenty years in succession. However, the same Independent Auditor may only serve for a period of twenty years in succession. The 157th fiscal year is the 14th fiscal year since Ernst & Young ShinNihon LLC was appointed as the Independent Auditor of the Company.

(4) Audit Compensation

(i) Compensation Paid to Certified Public Accountant, etc.

Category	Fiscal year ended December 31, 2020		Fiscal year ended December 31, 2021	
	Audit fees (millions of yen)	Non-audit fees (millions of yen)	Audit fees (millions of yen)	Non-audit fees (millions of yen)
Reporting company	181	1	161	–
Consolidated subsidiaries	35	–	37	–
Total	216	1	198	–

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

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

Category	Fiscal year ended December 31, 2020		Fiscal year ended December 31, 2021	
	Audit fees (millions of yen)	Non-audit fees (millions of yen)	Audit fees (millions of yen)	Non-audit fees (millions of yen)
Reporting company	–	–	–	–
Consolidated subsidiaries	269	42	337	48
Total	269	42	337	48

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

(iii) Other Important Audit Fees

Not applicable.

(iv) Policy for Determining Audit Compensation

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

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

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

(4) Compensation for Officers.

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

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

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

The Compensation Policy as of the filing date includes partial revisions made by the Compensation Committee in December 2020 to the compensation policy decided by the resolution of the Compensation Committee in February 2020, based on the Company's long-term vision, E-Vision2030, and medium-term management plan, E-Plan2022. The details of the revisions are as follows.

a. Compensation for Directors

(a) Objectives and Basic Policy of the Compensation System

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

(b) Compensation System

i) Compensation System for Non-executive Directors

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

ii) Executive Directors

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

(c) Combination of Compensation

The combination of Directors' compensation is as follows.

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

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

b. Compensation for Executive Officers

(a) Objectives and Basic Policy of the Compensation System

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

(b) Compensation System

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

As for the company-wide and business-level index of the short-term performance-linked compensation, the ROIC, consolidated operating profit, and revenue from S&S, which are consistent with the management goal of profitability improvement, will be adopted. The Company will also introduce non-financial indicators from April 2022 to practice advanced ESG management toward the creation of a sustainable society through its business activities. For Executive Officers except for President and Representative Executive Officer, in addition to the company-wide or business-level performance, individual targets are set, and the achievement rate against the target will be evaluated, and the pay rate will be determined through discussion at the Compensation Committee.

Also, as for the index of the performance-linked stock compensation, the ROIC of the Company for the year ending December 31, 2022, the final fiscal year of the medium-term management plan E-Plan2022, will be adopted.

(c) Combination of Compensation

The combination of Executive Officers' compensation is as follows.

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

Notes: 1. The above shows a compensation ratio, and the amount of compensation paid to each individual varies.

2. Short-term performance-linked compensation is paid within the range of 0 to 200% based on the level of achievement of company-wide or business-level performance targets.

3. Performance-linked stock compensation is paid within a range of 0 to 200% based on the level of achievement of company-wide performance targets.

(d) Compensation Levels

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

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

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

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

The primary task of the Compensation Committee is to supervise the compensation systems for Directors and Executive

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

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

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

In fiscal 2021, the Compensation Committee met nine times and resolved the Compensation Policy. It has also determined the amount of basic compensation and short-term performance-linked compensation for each individual Director and Executive Officer based on the Compensation Policy, as well as the details and the number of restricted stock compensation and performance-linked stock compensation.

(iii) Reasons Why the Compensation Committee Believes the Details of Individual Compensation for Directors and Executive Officers for the Fiscal Year Ended December 31, 2021 Are in Line with the Determination Policy

The Compensation Committee determined the details of individual compensation for Directors and Executive Officers for the fiscal year ended December 31, 2021 after careful deliberation at its meeting based on (a) Objectives and basic policy of the compensation system presented in a. Compensation for Directors and b. Compensation for Executive Officers, as stated above. The committee deliberated (1) whether the amount of basic compensation was in accordance with the roles of each Director and Executive Officer, while taking into account the compensation levels of domestic peers and those of employees; (2) whether the amount of short-term performance-linked compensation for individual Directors and Executive Officers was in accordance with the achievement levels of company-wide performance targets and individual targets for the fiscal year ended December 31, 2021; and (3) whether a prescribed number of shares would be granted under the restricted stock compensation scheme in accordance with the roles of each Director and Executive Officer. Accordingly, the Compensation Committee believes that the details of individual compensation for Directors and Executive Officers for the fiscal year ended December 31, 2021 are in line with the determination policy.

(ii) Payment Items

i) Short-term Performance-linked Compensation

a. Overview

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

b. Company-wide performance indicator targets and results for fiscal year 2021

Performance indicator	Evaluation weight	Target for fiscal year 2021	Actual results for fiscal year 2021
Consolidated ROIC	40%	6.8%	10.7%
Consolidated operating profit	40%	41.8 billion yen	61.3 billion yen
Revenue from S&S	20%	215.1 billion yen	228.4 billion yen

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

a. Overview

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

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

(a) Restricted Stock Compensation

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

(b) Performance-linked Stock Compensation

For the performance-linked stock compensation, with the standard number of shares to grant set in advance in accordance with the roles of the eligible officers in the first fiscal year of the medium-term management plan, the Company will grant the number of its shares calculated according to the degree of achievement of the consolidated ROIC target for the fiscal year ending December 31, 2022, the final fiscal year of the medium-term management plan. The equivalent of 40% of the allotted shares will be paid in cash.

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

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

Of the long-term incentives, performance-linked stock compensation will be paid at a rate of 0% to 200% based on the level of achievement of the consolidated ROIC target (7.6%) for the fiscal year ending December 31, 2022, the final fiscal year of the medium-term management plan E-Plan2022. The ROIC for the fiscal year ended December 31, 2021 was 10.7%.

(iii) Total Amount of Compensation by Position and Type of Compensation, as well as the Number of Recipients

i) Amount of Compensation Paid to Directors and Executive Officers

Position	Total amount of compensation, etc. (millions of yen)	Total amount of compensation, etc. by items (millions of yen)					Number of eligible officers (persons)
		Basic compensation	Short-term performance-liked compensation	Restricted stock compensation	Performance-liked stock compensation	Others	
Director (excluding Independent Directors)	140	98	–	31	9	–	3
Executive Officer	1,310	415	332	80	442	40	15
Independent Directors	123	104	–	19	–	–	8

Notes:
1. The above shows the compensation paid to Directors and Executive Officers as of December 31, 2021 according to their term of office for the fiscal year under review, and the compensation paid to two Directors who retired at the conclusion of the 156th Ordinary General Meeting of Shareholders held on March 26, 2021 and one Executive Officer who retired at the conclusion of the meeting of the Board of Directors held on the same day, from January 2021 to the time of their retirement.
2. Compensation paid to President and Representative Executive Officer concurrently serving as Director is shown in the column for Executive Officers.
3. Amount of compensation paid to Executive Officers includes ¥223 million (Base compensation: ¥91 million, Short term performance-linked compensation: ¥55 million, Performance-linked stock compensation: ¥35 million and Others: ¥40 million) as compensation that subsidiaries paid to Executive Officers who served concurrently as the officers of the subsidiaries.
4. Short term performance-linked compensation for Executive Officers is linked to the company-wide or business-level performance as well as the achievement rate against the preset individual targets. The individual amount is determined through discussion at the Compensation Committee.
5. Short-term performance-linked compensation shown is the total amount of short-term performance-linked compensation for the fiscal year under review (to be paid in March 2022), to Executive Officers in office as of December 31, 2021.
6. Restricted stock compensation shown represents the amount of restricted stock compensation paid in the fiscal year under review as well as the portion of the restricted stock compensation paid in the previous fiscal years to be recorded an expense in the fiscal year under review.
7. Performance-linked stock compensation shown represents the portion of performance-linked stock compensation to be paid in May 2023 that should be recorded as an expense in the fiscal year under review. The amount of the above compensation for the fiscal year under review has been calculated using the latest share price of the Company and the projected consolidated ROIC in the management plan for the fiscal year ending December 31, 2022, the final fiscal year of the medium-term management plan E-Plan2022, and adding the difference between the amount recorded in the previous fiscal year and the amount recorded in the fiscal year under review.
8. “Other” shows the total of ¥34 million, consisting of the portion of performance-linked stock compensation scheduled to be paid by a subsidiary to Michael Lordi in 2023 that should be recorded as an expense in the fiscal year under review, and pension contributions of ¥5 million paid in the fiscal year under review.

ii) Total Amount of Consolidated Compensation, etc. by Officer of the Reporting Company

Name	Total amount of compensation, etc. (Millions of yen)	Company	Total amount of compensation, etc. by items (millions of yen)				
			Basic compensation	Short-term performance-liked compensation	Restricted stock compensation	Performance-liked stock compensation	Others
President, Representative Executive Officer Masao Asami	200	Reporting company	54	46	16	84	–
Executive Officer Nobuharu Noji	101	Reporting company	31	21	7	40	–
Executive Officer Tetsuji Togawa	106	Reporting company	31	27	7	40	–
Executive Officer Michael T. Lordi	31	Reporting company	–	21	–	10	–
	155	Elliott Group Holdings, Inc.	62	37	–	15	40

Notes: 1. Short-term performance-linked compensation shown is the total amount of short-term performance-linked compensation for the fiscal year under review (to be paid in March 2022).

2. Restricted stock compensation shown represents the amount of restricted stock compensation paid in the fiscal year under review as well as the portion of the restricted stock compensation paid in the previous fiscal years that should be recorded as an expense in the fiscal year under review.

3. Performance-linked stock compensation shown represents the portion of performance-linked stock compensation to be paid in May 2023 that should be recorded as an expense in the fiscal year under review. The amount of the above compensation for the fiscal year under review has been calculated using the latest share price of the Company and the projected consolidated ROIC in the management plan for the fiscal year ending December 31, 2022, the final fiscal year of the medium-term management plan E-Plan2022, and adding the difference between the amount recorded in the previous fiscal year and the amount recorded in the fiscal year under review.

4. “Other” shows the total of ¥34 million, consisting of the portion of performance-linked share-based compensation scheduled to be paid to Michael Lordi in 2023 that should be recorded as an expense in the fiscal year under review, and pension contributions of ¥5 million paid in the fiscal year under review.

iii) Significant Items of Employee Salaries Paid to Officers Concurrently Serving as Employees

Not applicable.

(5) Shareholdings

(i) Standards for and Views on Classification of Investment Shares

The Company classifies investment shares by holding purpose into pure investment shares only for the purpose of receiving returns from share price fluctuations and/or dividends and other investment shares for the purpose of maintaining and strengthening business relationships. Among other investment shares, the Company also classifies listed shares as specified investment shares and shares other than those as unlisted shares.

Regarding shares with voting rights exercisable based on the provisions of agreements such as trust agreements or laws, the Company classifies them as deemed holdings of investment shares.

(ii) Investment Shares Held for Purposes Other Than Pure Investment

i) Shareholding policy, method of verification of the rationale for shareholdings, and details of verification by the Board of Directors of the appropriateness of shareholdings in individual issues

Shareholding policy, method of verification of the rationale for shareholdings:

The Company holds investment shares held for purposes other than pure investment (listed shares only) and deemed holdings of investment shares only when it deems business alliances with investees through shareholdings will help enhance the Group's corporate value. The Board of Directors regularly reviews the following perspectives to verify the rationale for shareholdings. The Company disposes of investment shares as needed by selling them or taking other actions when they are deemed to be less reasonable.

Perspectives to verify the rationale for shareholdings:

a. A business alliance with an investee is important, and maintaining the relationship with them is necessary.

b. Returns and risks of shareholdings are worth the capital cost.

As of December 31, 2021, the Company does not hold specified investment shares or deemed holdings of investment shares.

ii) Number of issues and carrying amount

	Number of issues (Issue)	Total carrying amount on balance sheet (millions of yen)
Unlisted shares	32	1,845
Shares other than unlisted shares	–	–

Issues whose number of shares increased during the fiscal year ended December 31, 2021

Not applicable.

Issues whose number of shares decreased during the fiscal year ended December 31, 2021

	Number of issues (Issue)	Total selling price for the shares decreased (millions of yen)
Unlisted shares	7	2,038
Shares other than unlisted shares	–	–

iii) Number and carrying amount of specified investment shares and deemed holdings of investment shares by issue

Not applicable.

(iii) Investment Shares Held for Pure Investment

Not applicable.

(iv) Investment Shares Whose Holding Purpose Was Changed from Pure Investment to Other Than Pure Investment during the Fiscal Year under Review

Not applicable.

(v) Investment Shares Whose Holding Purpose Was Changed from Other Than Pure Investment to Pure Investment during the Fiscal Year under Review

Not applicable.

V. Financial Information

1. Basis for preparation of consolidated financial statements

   The consolidated financial statements of the Company are prepared in accordance with International Financial Reporting Standards (hereinafter "IFRS") pursuant to the provisions of Article 93 of the "Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (Ministry of Finance Order No. 28 of 1976; hereinafter the "Regulation on Consolidated Financial Statements").

2. Audit certification

   The Company's consolidated financial statements for the fiscal year ended December 31, 2021 were audited by Ernst & Young ShinNihon LLC, in accordance with the provisions of Article 193−2, Paragraph 1 of the Financial Instruments and Exchange Act.

3. Special measures to ensure the appropriateness of consolidated financial statements

   The Company has taken special measures to ensure the appropriateness of consolidated financial statements, etc. Specifically, the Company has joined the Financial Accounting Standards Foundation and participates in seminars hosted by the foundation to establish a system that allows the Company to understand accounting standards properly.

4. Establishment of a system to enable the proper preparation of consolidated financial statements, etc. in accordance with IFRS

   The Company obtains press releases and standards issued by the International Accounting Standards Board from time to time to understand the latest standards. The Company has prepared the Group accounting manual in accordance with IFRS and developed a system to enable the proper preparation of consolidated financial statements, etc. under IFRS.

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

(i) Consolidated statement of financial position

(Millions of yen)

	Notes No.	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Assets				
Current assets				
Cash and cash equivalents	7	95,256	120,544	136,488
Trade and other receivables	8, 35	140,881	122,343	130,121
Contract assets		64,632	76,533	86,887
Inventories	9	101,150	101,654	121,389
Income taxes receivable		637	292	605
Other financial assets	10, 35	3,007	2,750	3,267
Other current assets	18	14,396	15,945	21,173
Total current assets		419,962	440,062	499,934
Non−current assets				
Property, plant and equipment	11, 14	150,353	158,763	161,392
Goodwill and intangible assets	12	8,714	11,450	23,204
Investments accounted for using equity method	16	6,379	6,964	7,153
Deferred tax assets	17	14,391	12,994	12,665
Other financial assets	10, 35	9,765	7,703	6,241
Other non−current assets	18	5,897	6,832	9,144
Total non−current assets		195,502	204,709	219,801
Total assets		615,465	644,771	719,736

(Millions of yen)

	Notes No.	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Liabilities and equity				
Liabilities				
Current liabilities				
Trade and other payables	19,35	137,843	142,701	162,558
Contract liabilities		20,728	40,056	49,771
Bonds, borrowings and lease liabiliies	20,35	42,805	33,404	56,578
Income taxes payable		2,397	3,620	6,337
Provisions	23	14,972	14,489	14,769
Other financial liabilities	21,35	85	84	98
Other current liabilities	22	39,427	33,643	37,243
Total current liabilities		258,259	267,998	327,357
Non−current liabilities				
Bonds, borrowings and lease liabiliies	20,35	61,191	64,946	55,467
Retirement benefit liability	24	12,004	9,494	8,413
Provisions	23	2,453	2,319	2,488
Deferred tax liabilities	17	47	45	402
Other financial liabilities	21,35	234	182	123
Other non−current liabilities	22	3,099	2,907	3,829
Total non−current liabilities		79,031	79,895	70,723
Total liabilities		337,291	347,894	398,080
Equity				
Share capital	25	79,155	79,451	79,643
Capital surplus	25	76,083	75,987	76,566
Retained earnings	25	116,732	136,629	171,720
Treasury shares	25	(174)	(178)	(20,189)
Other components of equity		(518)	(2,324)	4,569
Total equity attributable to owners of parent		271,277	289,564	312,310
Non−controlling interests		6,896	7,312	9,345
Total equity		278,173	296,877	321,655
Total liabilities and equity		615,465	644,771	719,736

ii) Consolidated statement of profit or loss

(Millions of yen)

	Notes No.	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Revenue	28	522,478	603,213
Cost of sales		376,032	424,571
Gross profit		146,446	178,641
Selling, general and administrative expenses	29	108,563	120,553
Other income	30	931	4,131
Other expenses	30	1,246	847
Operating profit		37,566	61,372
Finance income	32	382	416
Finance costs	32	3,040	2,687
Share of profit (loss) of investments accounted for using equity method	16	847	1,200
Profit before tax		35,756	60,302
Income tax expense	17	9,805	13,873
Profit		25,950	46,428
Profit attributable to:			
Owners of parent		24,236	43,616
Non-controlling interests		1,713	2,812
Earnings per share			
Basic earnings per share (Yen)	33	254.36	463.44
Diluted earnings per share (Yen)	33	253.34	462.09

(iii) Consolidated statement of comprehensive income

(Millions of yen)

	Notes No.	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Profit		25,950	46,428
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		1,486	2,758
Net change in financial assets measured at fair value through other comprehensive income		(159)	47
Share of other comprehensive income of investments accounted for using equity method		18	86
Total of items that will not be reclassified to profit or loss		1,345	2,893
Items that may be reclassified to profit or loss			
Cash flow hedges		(31)	94
Exchange differences on translation of foreign operations		(1,676)	6,602
Total of items that may be reclassified to profit or loss		(1,708)	6,697
Total other comprehensive income, net of tax	34	(363)	9,591
Total		25,587	56,020

Comprehensive income attributable to:			
Owners of parent		23,804	52,529
Non-controlling interests		1,782	3,490

(iv) Consolidated statement of changes in equity

Fiscal year ended December 31, 2020

(Millions of yen)

		Equity attributable to owners of parent					
						Other components of equity	
	Notes No.	Share capital	Capital surplus	Retained earnings	Treasury shares	Exchange differences on translation of foreign operations	Net change in financial assets measured at fair value through other comprehensive income
Balance at January 1, 2020		79,155	76,083	116,732	(174)	−	(493)
Changes of the year							
Comprehensive income							
Profit		−	−	24,236	−	−	−
Other comprehensive income		−	−	−	−	(1,746)	(140)
Total		−	−	24,236	−	(1,746)	(140)
Transactions with owners							
Dividends	26	−	−	(5,713)	−	−	−
Purchase of treasury shares	25	−	−	−	(3)	−	−
Disposal of treasury shares		−	−	−	−	−	−
Share−based payment transactions	27	296	(95)	−	−	−	−
Change in scope of consolidation		−	−	−	−	−	−
Transfer from other components of equity to retained earnings		−	−	1,374	−	−	113
Total transactions with owners		296	(95)	(4,339)	(3)	−	113
Balance at December 31, 2020		79,451	75,987	136,629	(178)	(1,746)	(520)

(Millions of yen)

	Notes No.	Equity attributable to owners of parent: Other components of equity: Cash flow hedges	Remeasurements of defined benefit plans	Total other components of equity	Total equity attributable to owners of parent	Total non-controlling interests	Total equity
Balance at January 1, 2020		(24)	–	(518)	271,277	6,896	278,173
Changes of the year							
Comprehensive income							
Profit		–	–	–	24,236	1,713	25,950
Other comprehensive income		(31)	1,487	(432)	(432)	68	(363)
Total		(31)	1,487	(432)	23,804	1,782	25,587
Transactions with owners							
Dividends	26	–	–	–	(5,713)	(1,366)	(7,080)
Purchase of treasury shares	25	–	–	–	(3)	–	(3)
Disposal of treasury shares		–	–	–	–	–	–
Share-based payment transactions	27	–	–	–	200	–	200
Change in scope of consolidation		–	–	–	–	0	0
Transfer from other components of equity to retained earnings		–	(1,487)	(1,374)	–	–	–
Total transactions with owners		–	(1,487)	(1,374)	(5,516)	(1,366)	(6,883)
Balance at December 31, 2020		(56)	–	(2,324)	289,564	7,312	296,877

Fiscal year ended December 31, 2021

(Millions of yen)

	Notes No.	Equity attributable to owners of parent					
						Other components of equity	
		Share capital	Capital surplus	Retained earnings	Treasury shares	Exchange differences on translation of foreign operations	Net change in financial assets measured at fair value through other comprehensive income
Balance at January 1, 2021		79,451	75,987	136,629	(178)	(1,746)	(520)
Changes of the year							
Comprehensive income							
Profit		–	–	43,616	–	–	–
Other comprehensive income		–	–	–	–	5,926	77
Total		–	–	43,616	–	5,926	77
Transactions with owners							
Dividends	26	–	–	(10,455)	–	–	–
Purchase of treasury shares	25	–	–	(88)	(20,010)	–	–
Disposal of treasury shares	25	–	0	–	0	–	–
Share−based payment transactions	27	191	578	–	–	–	–
Change in scope of consolidation		–	–	–	–	–	–
Transfer from other components of equity to retained earnings		–	–	2,018	–	–	795
Total transactions with owners		191	578	(8,525)	(20,010)	–	795
Balance at December 31, 2021		79,643	76,566	171,720	(20,189)	4,179	351

(Millions of yen)

	Notes No.	Equity attributable to owners of parent					
		Other components of equity					
		Cash flow hedges	Remeasurements of defined benefit plans	Total other components of equity	Total equity attributable to owners of parent	Total non−controlling interests	Total equity
Balance at January 1, 2021		(56)	−	(2,324)	289,564	7,312	296,877
Changes of the year							
Comprehensive income							
Profit		−	−	−	43,616	2,812	46,428
Other comprehensive income		94	2,814	8,912	8,912	678	9,591
Total		94	2,814	8,912	52,529	3,490	56,020
Transactions with owners							
Dividends	26	−	−	−	(10,455)	(1,458)	(11,914)
Purchase of treasury shares	25	−	−	−	(20,099)	−	(20,099)
Disposal of treasury shares	25	−	−	−	0	−	0
Share−based payment transactions	27	−	−	−	770	−	770
Change in scope of consolidation		−	−	−	−	0	0
Transfer from other components of equity to retained earnings		−	(2,814)	(2,018)	−	−	−
Total transactions with owners		−	(2,814)	(2,018)	(29,784)	(1,458)	(31,242)
Balance at December 31, 2021		38	−	4,569	312,310	9,345	321,655

(v) Consolidated statement of cash flows

(Millions of yen)

	Notes No.	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Cash flows from operating activities			
Profit before tax		35,756	60,302
Depreciation and amortization		19,872	21,435
Impairment losses		248	198
Interest and dividend income		(380)	(387)
Interest expenses		1,436	1,298
Foreign exchange loss (gain)		(563)	5,148
Share of loss (profit) of investments accounted for using equity method		(847)	(1,200)
Loss (gain) on sale of fixed assets		(15)	(2,991)
Decrease (increase) in trade and other receivables		16,896	(862)
Decrease (increase) in contract assets		(12,241)	(5,968)
Decrease (increase) in inventories		(1,299)	(14,224)
Increase (decrease) in trade and other payables		4,669	17,757
Increase (decrease) in contract liabilities		19,194	6,691
Increase (decrease) in provisions		(370)	15
Increase or decrease in retirement benefit asset or liability		(522)	(425)
Other		(4,958)	(2,121)
Subtotal		76,875	84,665
Interest received		356	363
Dividends received		321	1,122
Interest paid		(1,400)	(1,369)
Income taxes paid		(7,305)	(11,923)
Net cash provided by (used in) operating activities		68,848	72,858
Cash flows from investing activities			
Payments into time deposits		(3,565)	(4,092)
Proceeds from withdrawal of time deposits		3,761	3,958
Purchase of investment securities		(582)	(20)
Proceeds from sales and redemption of investment securities		2,471	3,085
Purchase of property, plant and equipment, and intangible assets		(31,250)	(25,755)
Proceeds from sale of property, plant and equipment		91	1,575
Purchase of shares of subsidiaries resulting in change in scope of consolidation	6	–	(10,375)
Other		(125)	263
Net cash provided by (used in) investing activities		(29,200)	(31,361)
Cash flows from financing activities			
Net increase (decrease) in short−term borrowings	36	2,331	8,752
Proceeds from long−term borrowings	36	27,750	5,191
Repayments of long−term borrowings	36	(41,738)	(6,362)
Repayments of lease liabiliies	36	(5,728)	(5,058)
Proceeds from issuance of bonds	36	10,000	–
Proceeds from issuance of shares		0	0
Purchase of treasury shares		(3)	(20,099)
Dividends paid		(5,713)	(10,455)
Dividends paid to non−controlling interests		(1,287)	(1,458)
Other		0	0
Net cash provided by (used in) financing activities		(14,389)	(29,489)
Effect of exchange rate changes on cash and cash		29	3,936

(Millions of yen)

	Notes No.	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
equivalents			
Net increase (decrease) in cash and cash equivalents		25,287	15,944
Cash and cash equivalents at beginning of period	7	95,256	120,544
Cash and cash equivalents at end of period	7	120,544	136,488

Notes to Consolidated Financial Statements1. Reporting entityEBARA CORPORATION (hereinafter the “Company”) is a company incorporated in Japan with the registered head office address in Ota−ku, Tokyo. The consolidated financial statements for the current fiscal year (from January 1, 2021 to December 31, 2021) are comprised of the accounts of the Company and its consolidated subsidiaries (hereinafter the “Group”), as well as its interests in associates and jointly controlled entities, etc. The Group is engaged in the following three businesses: the Fluid Machinery & Systems Business, which specializes in rotary machinery such as pumps and compressors; the Environmental Plants Business, which includes municipal waste incineration facilities and other environmental plants; and the Precision Machinery Business, which manufactures machinery and equipment for semiconductor manufacturing equipment.Details of the Group’s main business lines and activities are provided in “5. Operating segments.”2. Basis of preparation(1) Compliance with IFRS and matters regarding first−time adoptionThe Group’s consolidated financial statements have been prepared in accordance with IFRS. Since the Company satisfies the requirements of a specified company complying with designated international accounting standards provided in Article 1−2 of the Regulation on Consolidated Financial Statements, it has adopted the provisions of Article 93 of the same Regulation.The Group adopted IFRS for the first time from the fiscal year ended December 31, 2021, with January 1, 2020 as the date of transition to IFRS (hereinafter the “transition date”). Effects of the transition to IFRS on the Group’s financial position, operating results and cash flows as of the transition date and for the comparative fiscal years are provided in “42. First−time adoption.”The Group’s accounting policies comply with IFRS effective as of December 31, 2021, except for IFRS for which early adoption was not made and exemptions granted under IFRS 1 “First−time Adoption of International Financial Reporting Standards” (hereinafter “IFRS 1”).The consolidated financial statements were approved on March 29, 2022 by President and Representative Executive Officer Masao Asami.(2) Basis of measurementThe Group’s consolidated financial statements have been prepared on a historical cost basis, except for financial instruments and other items described in “3. Significant accounting policies.”(3) Functional currency and presentation currencyThe Group’s consolidated financial statements are presented in Japanese yen, which is the Company’s functional currency, and amounts less than one million yen have been rounded down to the nearest million yen.

3. Significant accounting policies

(1) Basis of consolidation

(i) Subsidiaries

A subsidiary is an entity controlled by the Group. The Group controls an investee if the Group not only has power over the investee and exposure to variable returns from its involvement with the investee, but also has the ability to use its power to affect its returns from the investee.

The Group includes non−consolidated financial statements of a subsidiary in the consolidated financial statements from the date when it gains control until the date when it ceases to control the subsidiary. If control continues after disposal of a portion of the Group's interest in a subsidiary, the change in the Group’s interest is accounted for as an equity transaction, and the difference between the adjusted amount of the non−controlling interest and the fair value of the consideration is recognized directly in equity as equity attributable to owners of parent. When the Group loses control of a subsidiary, it recognizes gains or losses arising from the loss of control in profit or loss.

The balances of receivables and payables and transactions within the Group, as well as unrealized gains and losses arising from transactions within the Group are eliminated in the preparation of the consolidated financial statements.

(ii) Associates and joint ventures

An associate is an entity over which the Group has significant influence over its financial and operating policy decisions but not joint control or control of those polices. Investments in associates are accounted for using equity method.

A joint venture is an entity for which multiple parties, including the Group, share the contractually agreed control of an arrangement, and decisions about the relevant activities require the unanimous consent of the parties sharing control. Investments in joint ventures are accounted for using equity method.

Investments in associates and joint ventures are initially recognized at cost. The Group’s interests in profit (loss) and other comprehensive income of associates are recognized as changes in investments in associates and joint ventures from the date when it gains significant influence until the date when it loses significant influence.

The accounting policies of the companies accounted for using equity method have been revised as necessary to ensure consistency with the accounting policies adopted by the Group.

If the Group’s interests in loss exceeds an investment in the companies accounted for using equity method, the Group reduces the carrying amount of the investment to zero and does not recognize any further losses unless the Group assumes or pays obligation on behalf of the investee.

(iii) Business combinations

The Group accounts for business combinations using the acquisition method. The Group initially measures non−controlling interests as its proportionate interests in the net identifiable assets of the acquiree at the acquisition date.

If the total amount of fair value of consideration paid, the amount of non−controlling interests of the acquiree, and, in case of a step acquisition, the acquisition−date fair value of equity held by the Company in the acquiree pre−acquisition exceeds the net value of identifiable assets and liabilities assumed at the acquisition date, the excess is recognized as goodwill. On the other hand, if the total amount of consideration is lower than the net value of identifiable assets and liabilities, the difference is recognized as a gain in profit or loss.

Acquisition−related costs are expensed as incurred, except for costs to issue debt or equity instruments.

If the initial accounting of a business combination is incomplete by the end of the fiscal year in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. If the Group obtains information about facts and circumstances that existed as at the acquisition date and, if known, would have affected the measurement of the amount recognized as of that date during the period in which the measurement of the amounts recognized is deemed to have been affected (hereinafter, the “measurement period”), the Group reflects such information and retrospectively adjusts the provisional amounts recognized at the acquisition date. This new information may result in an additional recognition of assets and liabilities. The measurement period does not exceed one year from the acquisition date.

(2) Foreign exchange translation

(i) Foreign currency transaction

Foreign currency transactions are translated into each functional currency of the Group companies using exchange rates as of the transaction date. Monetary assets and monetary liabilities denominated in foreign currency are translated into functional currency at exchange rates as of the reporting date. Non−monetary assets and non−monetary liabilities measured at fair value in foreign currency are translated into functional currency at exchange rates as of the fair value measurement date. Non−monetary items measured at cost denominated in foreign currency are translated at exchange rates as of the transaction date. The amount of exchange differences on foreign currency translation are normally recognized in profit or loss and presented as finance costs. If a gain or loss on a non−monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income.

(ii) Financial statements of foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisitions, are translated into the presentation currency at exchange rates as of the end of the reporting period. Revenue and costs of foreign operations are translated at the average rate for the reporting period, except for when exchange rates fluctuate significantly. Exchange differences on translation of foreign currency are recognized in other comprehensive income and accumulated in translation adjustments except for the component allocated to non−controlling interests. When all or part of foreign operations are disposed of and control, significant influence or joint control is lost, the cumulative amount of foreign currency translation adjustments related to such foreign operations are reclassified to profit or loss as part of a gain or loss on disposal. When the Group partly disposes of equity in a subsidiary but retains control, part of the cumulative amount is redistributed to non−controlling interests as appropriate. When the Group only partly disposes of an associate or a joint venture while retaining control, part of the cumulative amount is reclassified to profit or loss as appropriate.

(3) Financial instruments

(i) Non−derivative financial assets

The Group initially recognizes trade receivables on the date when they arise. The Group initially recognizes other financial assets on the transaction date when the Group becomes a party to the contractual provisions of these financial instruments.

The Group derecognizes a financial asset if the contractual rights to the cash flows from the financial asset expire, or when the Group transfers the contractual rights to receive the cash flows of the financial asset in transactions in which the Group substantially transfers all the risks and rewards of ownership of the financial asset. In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, and does not retain control of the financial asset, the Group derecognizes the asset.

The classification of financial assets and the measurement models are outlined as follows:

i) Financial assets measured at amortized cost

Financial assets which satisfy both of the following conditions are classified as financial assets measured at amortized cost:

- The objective of the entity's business model is to hold the financial asset to collect the contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, financial assets measured at amortized cost are measured at their fair value plus transaction costs that are directly attributable to the acquisition. After initial recognition, impairment losses are deduced from the gross carrying amount to which the effective interest method is applied.

ii) Financial assets measured at fair value through profit or loss

Financial assets except for those measured at amortized cost are classified as financial assets measured at fair value.

Of financial assets measured at fair value, financial assets except for those classified as financial assets measured at fair value through other comprehensive income are classified as financial assets measured at fair value through profit or loss.

At initial recognition, the financial assets measured at fair value through profit or loss are measured at their fair value with the transaction costs that are directly attributable to the acquisition being recognized in profit or loss as incurred. After initial recognition, the financial assets are measured at fair value with any subsequent changes recognized in profit or loss.

iii) Financial instruments measured at fair value through other comprehensive income

Of debt instruments measured at fair value, those which satisfy both of the following conditions are classified as financial assets measured at fair value through other comprehensive income.

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

At initial recognition, financial assets measured at fair value through other comprehensive income are measured at their fair value plus transaction costs that are directly attributable to the acquisition. Interest, foreign exchange gain or loss and impairment losses are recognized in profit or loss, and other changes in fair value are recognized in other comprehensive income.

At initial recognition, entities are permitted to make an irrevocable election to present in other comprehensive income any subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. Accordingly, the Group makes such a designation on an instrument−by−instrument basis and classifies it as an equity instrument measured at fair value through other comprehensive income.

At initial recognition, equity instruments measured at fair value through other comprehensive income are measured at their fair value plus transaction costs that are directly attributable to the acquisition. After the initial recognition, the equity instruments are measured at fair value with any subsequent changes recognized in other comprehensive income. If the equity instruments are derecognized (or its fair value declines significantly), the amounts measured and recognized through other comprehensive income are reclassified to retained earnings on a cumulative basis instead of being reclassified to profit or loss. Dividends received are recognized in profit or loss unless they clearly indicate the recovery of costs of investments.

(ii) Impairment of non−financial assets

The Group recognizes a provision for bad debts corresponding to expected credit losses on financial assets measured at amortized cost. The Group determines at the end of the reporting period whether or not credit risk has increased significantly since initial recognition. If the credit risk of a financial instrument has increased significantly since initial recognition, a provision for bad debts for such financial assets is measured at the amount equal to lifetime expected credit losses. For all other financial instruments, expected credit losses are measured at an amount equal to the 12−month expected credit losses.

Notwithstanding the above, the Group always measures the amount of provision for bad debts equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables that do not contain a significant financing component.

The Group judges whether or not there is any significant increase in credit risk based on changes in the risk of a default. A default is defined as a situation where all or part of a financial asset is not reasonably expected to be collected because a debtor has a significant issue with the payment of contractual cash flows. To determine whether the risk of a default has changed or not, the Group mainly takes into account credit ratings by outside credit rating agencies and past-due information. If the Group determines the credit risk of a financial instrument is low at the end of the reporting period, the risk is deemed not to have significantly increased since the initial recognition. The Group determines that credit risk has increased significantly if the payment is in principle more than 30 days overdue. To determine changes in credit risk, the Group takes into account reasonable and supportable information available without undue cost or effort. The Group determines that there is no significant increase in credit risk if the presumption is rebuttable based on the said information.

The Group determines that the receivables are credit impaired if the debtor's financial position deteriorates considerably, or if the debtor commences legal liquidation proceedings primarily due to bankruptcy. For any debt found to be uncollectible in the future, the Group directly reduces the carrying amount of the financial asset, and also reduces the corresponding amount in the provision for bad debts. The provision for bad debts for financial assets is recognized in profit or loss. When an event occurs that reduces the provision for bad debts, its reversal is recognized in profit or loss.

The Group measures expected credit losses of a financial instrument in a way that reflects:

i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,

ii) time value of money, and

iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

(iii) Non-derivative financial liabilities

The Group initially recognizes financial liabilities on the date when they arise, and measure them at amortized cost. At initial recognition, the financial liabilities are measured at their fair value minus transaction costs that are directly attributable to the issue of the liabilities. After initial recognition, they are measured at amortized cost based on the effective interest method.

Financial liabilities are derecognized when financial debts are extinguished; in other words, when debts specified in the contracts are discharged, canceled or expired.

(iv) Derivatives and hedge accounting

The Group utilizes derivative transactions such as forward exchange contracts and interest rate swaps to hedge risks of fluctuation in foreign exchange and interest rates.

The Group formally designates and documents risk management objective and strategy regarding hedging relationships and hedge transactions at their inception. The document identifies the hedging instruments, items or transactions to be hedged, nature of risks to be hedged, and the methods to evaluate effectiveness of hedging instruments to offset the exposure of hedged items to changes in fair value or cash flows attributable to the risks being hedged. While the Group deems these hedging transactions are extremely effective to offset changes in fair values or cash flows attributable to the risks being hedged, assessment has been continued to determine whether they were in effect extremely effective throughout the accounting period they were designated as hedge instruments.

Derivatives are initially recognized at fair value. After initial recognition, they are measured at fair value with any subsequent changes being accounted for as follows:

i) Fair value hedges

Changes in fair value of derivatives as a hedging instrument are recognized in profit or loss. Changes in fair value of a hedged item attributable to the risk being hedged are recognized in profit or loss by adjusting the carrying amount of the hedged item.

ii) Cash flow hedges

The portion of changes in fair value of derivatives as a hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income.

The amount recognized in other comprehensive income is transferred from other components of equity to profit or loss in the reporting period when the transaction being hedged affects profit or loss. However, if a hedge of a forecast transaction subsequently results in the recognition of a non−financial asset or a non−financial liability, the amount recognized in other comprehensive income is accounted for as an adjustment to the initial carrying amount of the non−financial asset or non−financial liability.

If a hedging instrument expires or is sold, terminated or exercised, and the instrument no longer meets the qualifying criteria for hedge accounting even after adjusting the hedge ratio, the Group discontinues hedge accounting prospectively. If a forecast transaction is no longer expected, the amount recognized as other comprehensive income is immediately reclassified from other components of equity to profit or loss.

iii) Derivatives not designated as a hedge

Changes in fair value of such derivatives are recognized in profit or loss.

(v) Offsetting financial assets and financial liabilities

A financial asset and a financial liability are presented on a net basis after offsetting only when the Group has a legally enforceable right to set off the recognized amounts, and intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(4) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits and short−term investments that are readily convertible to cash with a maturity of three months or less from the date of acquisition, and are subject to an insignificant risk of changes in value.

(5) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories includes all costs of purchase, manufacturing and processing costs, and other costs incurred in bringing the inventories to their present location and condition and allocated based mainly on the weighted average method (or the moving average method for Precision Machinery). Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(6) Property, plant and equipment (excluding right−of−use assets):

(i) Recognition and measurement

The Group adopts the cost model for the measurement of property, plant and equipment after recognition. It is presented at cost less any accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment comprises any costs directly related to the acquisition, estimated costs for dismantling and removing the asset and restoring the site on which it is located, and borrowing costs attributable to a qualifying asset.

Of the expenditures incurred after the acquisition of property, plant and equipment, those for ordinary repairs and maintenance are expensed as incurred, whereas those for major replacements and improvements are capitalized only when the expenditure is expected to bring future economic benefits to the Group.

(ii) Depreciation

Property, plant and equipment excluding land and construction in progress are depreciated from the time when they are available for use on a straight−line basis over their respective estimated useful lives. The estimated useful lives of major property, plant and equipment are as follows:

Buildings and structures	2 to 60 years
Machinery, equipment and vehicles	2 to 38 years

The depreciation method, estimated useful lives and residual values are reviewed at the end of each reporting period, and revised as necessary.

(7) Goodwill and intangible assets

(i) Goodwill

For the measurement of goodwill at initial recognition, see “(1) Basis of consolidation, (iii) Business combinations.” Goodwill is not amortized but tested for impairment at the same time every year and whenever there is any indication that it may be impaired. While impairment losses on goodwill are recognized in profit or loss, they are not reversed.

After the initial recognition, goodwill is presented at cost less any accumulated impairment losses

(ii) Intangible assets (excluding right−of−use assets):

Intangible assets acquired separately are measured at cost. The costs of intangible assets acquired through business combinations are measured at fair value on the date of the business combination.

The Group adopts the cost model for the measurement of intangible assets after recognition. It is presented at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets with a finite useful life are amortized on a straight−line basis over their respective estimated useful lives.

Estimated useful lives of major intangible assets are as follows:

Software for internal use 5 years

Intangible assets with an indefinite useful life and those not yet available for use are not amortized, but their estimated recoverable amount is estimated at the same time every year and whenever there is an indication of impairment.

The depreciation method and useful lives are reviewed at the end of each reporting period, and revised as necessary.

(8) Leases

(Lessee)

The Group recognizes right-of-use assets and lease liabilities at the commencement date of the lease. The Group assesses whether the contract is, or contains, a lease based on the substance of the contract even if it does not have a legal form of a lease. The lease term is determined as the non−cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Right-of-use assets are initially measured at cost. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease obligation adjusted for any lease payments made at or before the commencement date, less any lease incentives received, with the addition of any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset and restoring the underlying asset or the site on which it is located.

After initial measurement, the right-of-use asset is depreciated on a straight−line basis from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. The estimated useful life of the right−of−use asset is determined in the same way as for property, plant and equipment held by the Company.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date discounted at the interest rate implicit in the lease. If the interest rate implicit in the lease cannot be readily determined, the Group as lessee uses its incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as a discount rate.

Lease liabilities are remeasured if there is a change in future lease payments resulting from a change in an index or a rate, if there is a change in the amounts expected to be payable under a residual value guarantee, or if there is a change in the assessment on whether to exercise an option to purchase the underlying asset, to extend or terminate the lease. In these remeasurements of lease liabilities, corresponding adjustments are made to the carrying amount of right−of−use assets, or recognized in profit or loss if the carrying amount of right-of-use assets is reduced to zero.

Right−of−use assets and lease liabilities are presented in the consolidated statement of financial position under “Property, plant and equipment” and under “Bonds, borrowings and lease liabiliies,” respectively.

Short-term leases and leases of low-value assets

The Group has elected not to recognize right-of-use assets or lease liabilities for short-term leases with a lease term of 12 months or less and leases of low-value assets. The Group expenses lease payments for these leases on a straight-line basis over the lease term.

(Lessor)

For operating lease transactions, the Group recognizes underlying assets in the consolidated statement of financial position, and recognizes lease payments received as profit in the consolidated statement of profit or loss on a straight-line basis over the lease term.

(9) Impairment of non-financial assets

The Group assesses whether there is any indication of impairment on property, plant and equipment as well as intangible assets.

If there is an indication of impairment, the Group measures the recoverable amount of each individual asset or cash-generating unit. Further, the Group does not amortize goodwill, intangible assets with indefinite useful lives, or intangible assets not yet available for use, but instead performs an impairment test at the same time every fiscal year and whenever there is an indication of impairment.

In performing the impairment test, the Group aggregates the assets to the smallest group of assets that generates cash inflows from continuing use that are largely independent of those from other assets or groups of assets. As the Group’s corporate assets do not generate independent cash inflows, if there is an indication that a corporate asset may be impaired, the recoverable amount is estimated for the cash-generating unit that includes the corporate asset.

The recoverable amount is determined at the higher of its value in use and its fair value less costs of disposal. The value in use is determined at the present value of the estimated future cash flows discounted at the pre−tax discount rate that reflects the time value of money and the risks specific to the asset.

If the carrying amount of an individual asset or a cash−generating unit exceeds the recoverable amount, an impairment loss is recognized in profit or loss, and the carrying amount of the asset is reduced to the recoverable amount. An impairment loss recognized for a cash−generating unit is first allocated to reduce the carrying amount of goodwill included in the cash−generating unit, and then the carrying amount of other assets in the cash−generating unit is reduced proportionately.

An impairment loss for goodwill is not reversed. An impairment loss for non−financial assets other than goodwill is reversed if there is an indication that the impairment loss may no longer exist or may have been reduced and the recoverable amount exceeds the carrying amount after write−down. In reversing the impairment loss, the difference between the recoverable amount and the carrying amount is recognized in profit or loss within a range that does not exceed the carrying amount had no impairment losses been recognized for the asset in prior periods.

(10) Employee benefits

(i) Post−employment benefits

(Defined benefit plans)

The Group calculates defined benefit obligations by estimating the amount of future benefits which employees earned as consideration for services provided in the prior and current fiscal years, and then discounting the estimated amount to the present value. The discount rate is determined by reference to market yields at the end of the fiscal year on high quality corporate bonds with more or less the same maturity as the Group’s defined benefit obligations.

Retirement benefit asset or retirement benefit liability is recognized at the present value of defined benefit obligations less the fair value of plan assets. Service cost and net interest on net defined benefit liability are recognized in profit or loss.

An increase or a decrease arising from remeasurements of defined benefit plans is recognized at a lump sum in other comprehensive income for the period it was incurred and immediately transferred to retained earnings. Past service cost is fully recognized in profit or loss as incurred.

(Defined contribution plans)

The Group expenses the amount of contributions payable to defined contribution plans when the employees provide relevant services.

(ii) Short−term employee benefits

The Group expenses short−term employee benefits at the time when the employees provide relevant services, without discounting them.

The Group recognizes bonuses and paid leave costs as a liability at an estimated amount payable under these plans if it has legal or constructive obligations and the amount can be reliably estimated.

(iii) Other long−term employee benefits

Net obligation to the Group’s long−term employee benefit is the amount of future benefits which the employees earned as consideration for services provided in prior and current fiscal years. The amount is discounted to the present value. The difference arising from remeasurements is recognized in profit or loss in the period incurred.

(11) Share−based payment transactions

The Company adopts the following share−based payment plan as an incentive to its Directors, Executive Officers, and employees.

(Stock option plan)

Stock options are calculated based on the fair value as of their dates of grant. They are expensed over the vesting period reflecting the final number of stock options expected to be vested, and the same amount is recognized as an increase in equity. The fair value of a stock option is computed using the Black−Scholes model.

(Restricted stock compensation and performance-linked stock compensation schemes)
The Company has introduced share-based compensation schemes that are equity-settled and cash-settled with the aim of raising the motivation for contributing to the sustainable growth of corporate value and sharing value with the shareholders.

For equity-settled share-based compensation, the consideration for services received is measured by reference to the fair value of shares of the Company to be granted. The amount of consideration for services determined is recognized as an expense in profit or loss with the corresponding amount recognized as an increase in equity.

For cash-settled share-based compensation, the fair value of payment is recognized as a liability, and the change in fair value of the liability is recognized in profit or loss over the period up to the vesting of an unconditional right to receive payments.

(12) Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount of a provision is determined by discounting the estimated future cash flows to the present value at the pre-tax rate that reflects the time value of money and the risks specific to the liability. Any increase in the provision reflecting the effect of the passage of time is recognized as finance costs.

(13) Revenue

For contracts with customers, the Group recognizes revenue based on the following five-step approach.

Step 1: Identify the contract(s) with the customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies performance obligations

The Group is engaged in manufacturing, sales, construction, maintenance, and other activities in its Fluid Machinery & Systems Business, which specializes in rotary machinery such as pumps and compressors; the Environmental Plants Business, which includes municipal waste incineration facilities and other environmental plants; and the Precision Machinery Business, which manufactures machinery and equipment for semiconductor manufacturing equipment.

(i) Fluid Machinery & Systems Business

Engages in manufacturing, sales, construction and maintenance services related to custom and standard pumps, compressors, turbines, chillers, cooling towers and related systems, blowers, and control equipment for electricity, telecommunications, and energy.

For the manufacture and sale of products in the Fluid Machinery & Systems Business, based on a comprehensive assessment of indicators of the transfer of control, such as legal title of the product, physical possession of the product, transfer of significant risks and rewards of ownership of the product to a customer, and the right to receive payment from a customer, the Group determines that control of the products is transferred to the customer and the performance obligation is satisfied primarily at the time of delivery or inspection of the products.

For construction and maintenance contracts in the Fluid Machinery & Systems Business, the Group satisfies a performance obligation over a certain period of time and, therefore, recognizes revenue over time because primarily one of the following criteria is met and control of a product or service is transferred over time.

i) the customer simultaneously receives and consumes the benefits provided by the Group’s performance at the same time as the Group performs;
ii) the Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
iii) the Group’s performance does not create an asset with an alternative use to the Group, and the Group has an enforceable

right to payment for performance completed to date.

If the result of the performance obligation can be reasonably measured, revenue is recognized over the construction period based on the progress rate for fulfillment of the performance obligation estimated as of the end of the reporting period. The progress rate is calculated based on the ratio of the actual cost to the estimated total cost (input method). If the outcome of the performance obligation cannot be reasonably measured, but the Group expects to recover the cost of satisfying the performance obligation, the Group faithfully depicts its performance by recognizing sales only to the extent of the cost incurred.

(ii) Environmental Plants Business

The Environmental Plants Business is engaged in manufacturing, sales, construction, and maintenance services related to waste treatment facilities.

For the manufacture and sale of products in Environmental Plants Business, based on a comprehensive assessment of indicators of the transfer of control, such as legal title of the product, physical possession of the product, transfer of significant risks and rewards of ownership of the product to a customer, and the right to receive payment from a customer, the Group determines that control of the products is transferred to the customer and the performance obligation is satisfied primarily at the time of delivery or inspection of the products.

For construction and maintenance contracts in the Environmental Plants Business, the Group satisfies a performance obligation over a certain period of time and, therefore, recognizes revenue over time because primarily one of the following criteria is met and control of a product or service is transferred over time.

i) the customer simultaneously receives and consumes the benefits provided by the Group's performance at the same time as the Group performs;

ii) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

iii) the Group's performance does not create an asset with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

If the result of the performance obligation can be reasonably measured, revenue is recognized over the construction period based on the progress rate for fulfillment of the performance obligation estimated as of the end of the reporting period. The progress rate is calculated based on the ratio of the actual cost to the estimated total cost (input method). If the outcome of the performance obligation cannot be reasonably measured, but the Group expects to recover the cost of satisfying the performance obligation, the Group faithfully depicts its performance by recognizing sales only to the extent of the cost incurred.

(iii) Precision Machinery Business

Engages in manufacturing, sales, and maintenance services related to dry vacuum pumps and CMP systems.

For the manufacture and sales of products in the Precision Machinery Business, based on a comprehensive assessment of indicators of the transfer of control, such as legal title of the product, physical possession of the product, transfer of significant risks and rewards of ownership of the product to a customer, and the right to receive payment from a customer, the Group determines that control of the products is transferred to the customer and the performance obligation is satisfied primarily at the time of delivery or inspection of the products.

Revenue is measured at the amount of consideration promised in the contract with a customer, by deducting discounts, late fees, and other charges. For variable consideration, including variable discounts, the amount of consideration is estimated using all reasonably available information, and revenue is recognized only to the extent that it is highly probable that a significant reversal will not occur. Furthermore, the Group does not adjust the interest rate component of the consideration because it expects that, at the inception of the contract, the period between the time when the goods or services are transferred to the customer and the time when the customer pays the consideration is one year or less, applying practical expedients under IFRS 15 "Revenue from Contracts with Customers."

If multiple performance obligations are identified in the contract, the transaction amount is allocated to each performance obligation, mainly at a ratio of observable standalone selling price.

(14) Income taxes

Income tax expense is shown as the aggregate amount of current tax and deferred tax.

Current tax is measured at the amount expected to be paid to, or recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period. These are recognized under the profit or loss of the fiscal year, excluding items associated with a business combination and those recognized directly under equity or other comprehensive income.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are measured based on a temporary difference which is the difference between the carrying amount of assets and liabilities, and the tax base of assets and liabilities, and based on losses carried forward. Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which the deductible temporary differences, tax loss carried forward and tax credit carried forward, can be utilized.

Deferred tax assets and liabilities are not recognized for temporary differences arising from the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or taxable income. Further, deferred tax liabilities are not recognized for taxable temporary differences arising from the initial recognition of goodwill.

Taxable temporary differences related to investments in subsidiaries and associates are recognized as deferred tax liabilities. However, deferred tax liabilities are not recognized if the Group can control the timing of the reversal of temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets are also recognized for deductible temporary differences associated with investments in subsidiaries and associates, but only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

(15) Borrowing costs

For an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, borrowing costs directly attributable to acquisition, construction or production of such asset are capitalized as part of the cost of that asset. All other borrowing costs are recognized as an expense in the period in which they are incurred.

(16) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the parent, by the weighted average number of common shares outstanding during the period, adjusted for treasury shares during the period. Diluted earnings per share is calculated after adjusting for the effect of dilutive potential shares.

4. Significant accounting estimates and related judgments

In preparing consolidated financial statements in accordance with IFRS, the management is required to make judgments, estimates and assumptions that may affect the adoption of accounting policies and the reported amounts of assets, liabilities, income and expenses.

However, the actual performance may differ from these estimates.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate is recognized in the period of the change and future periods, if the change affects both.

The assumptions and sources of estimation uncertainty in the consolidated financial statements that have a risk of resulting in a significant adjustment to the carrying amounts of assets and liabilities within the next fiscal year are as outlined below:

・ Revenue recognition

Revenue is recognized over time mainly for construction and maintenance contracts of the Pumps, Compressors & Turbines, and Chillers businesses of the Fluid Machinery & Systems Business segment as well as the Environmental Plants Business segment, as control of goods or services is transferred over time and therefore performance obligation is satisfied over time. The input method is used to measure progress towards complete satisfaction of a performance obligation, if the outcome of a performance obligation can be reliably determined and measured at the ratio of costs incurred relative to total estimated costs.

Preconditions in estimates and measurement are reviewed as necessary, and the initial estimate may be amended as a result of incurring additional cost, changes in contract amounts, or for other reasons, and may significantly impact the amount recognized in the consolidated financial statements.

The carrying amount of contract assets as of December 31, 2021 is as stated in “28. Revenue.”

・ Recoverability of deferred tax assets

Recoverability of deferred tax assets are regularly examined and deferred tax assets are recorded reflecting future estimated taxable income and feasible tax planning, to the extent that it is probable that taxable income will be available against which deductible temporary differences, tax losses carried forward and tax credit carried forward can be utilized. The timing of incurring future taxable income and its amount for assuming estimates are measured based on the business plan approved by the management, but such assumptions may fluctuate due to factors such as the business results at that time. Therefore recoverability will be reviewed to adjust deferred tax assets in the event of any factors that affect these estimates, and may significantly impact the amount of deferred tax assets recognized in the consolidated financial statements.

The carrying amount of deferred tax assets as of December 31, 2021 is as stated in “17. Income taxes.”

・ Accounting and evaluation of provisions

The Group records provisions such as those for warranties on completed construction and for construction losses. These provisions are recognized if the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Assumptions used to measure such provisions may be affected by changes in uncertain economic conditions in the future, and may significantly impact the amount of provisions recognized in the consolidated financial statements over the future.

The carrying amount of provisions as of December 31, 2021 is as stated in “23. Provisions.”

・ Defined benefit obligations

The Group calculates defined benefit obligations by estimating the amount of future benefits which employees earned as consideration for services provided in the prior and current fiscal years, and then discounting the amount to the present value. The discount rate is a significant actuarial assumption determined by reference to market yields at the end of the fiscal year on high quality corporate bonds with more or less the same maturity as the Group’s defined benefit liability.

Other actuarial assumptions include estimated rates of retirement, mortality and salary increase. Such actuarial assumptions may be affected mainly by changes in the future economic environment or social trends, and any reviews of the assumptions may significantly impact the value of defined benefit liability recognized in the consolidated financial statements.

The carrying amounts of retirement benefit assets and liabilities as of December 31, 2021 is as stated in “24. Employee benefits.”

・Impairment of non-financial assets

The Group assesses property, plant and equipment as well as goodwill and intangible assets for indication of impairment. If there is an indication of impairment, the Group measures the recoverable amount of each individual asset or cash-generating unit. Further, goodwill or intangible assets with indefinite useful lives and those not yet available for use are tested for impairment at the same time every fiscal year and whenever there is an indication of impairment. The Group uses certain assumptions on factors such as future cash flows, discount rates and growth rates for calculating recoverable amounts in impairment testing.

Although these assumptions are determined by the management’s best estimate and judgment, it may be affected by factors such as changes in uncertain economic conditions in the future and changes in the business plan, and any reviews to the plans may significantly impact the consolidated financial statements.

The carrying amount of property, plant and equipment as well as goodwill and intangible assets as of December 31, 2021 is as stated in “11. Property, plant and equipment,” and “12 Goodwill and intangible assets,” respectively.

The spread of COVID−19 continues worldwide. It is still a major threat, and the situation remains unpredictable. On the other hand, thanks to increasingly active efforts to balance infection prevention measures and economic activities envisaging life with COVID−19, demand for social and industrial infrastructure is recovering.

The Group made accounting estimates assuming that COVID−19 will have only a limited impact on the Group’s business and that the business environment will remain steady in the fiscal year ending December 31, 2022.

However, if the impact of the spread of COVID−19 diverges from this assumption, the Group’s financial position and operating results may be affected.

5. Operating segments

(1) Overview of reportable segments

The reportable segments constitute units of the Group for which separate financial information is available and which the Board of Directors periodically examines for the purpose of deciding the allocation of management resources and evaluating operating performance. Operating segments are not aggregated.

The Group conducts its business operations through three in−house companies: the Fluid Machinery & Systems Company, the Environmental Plants Company and the Precision Machinery Company. Therefore, the Group is composed of product and service segments based along the lines of the in−house companies, and its three reportable segments are Fluid Machinery & Systems Business, Environmental Plants Business, and Precision Machinery Business.

Principal products and services of each reportable segment are as follows:

Reportable segments	Principal products and services
Fluid Machinery & Systems Business	Pumps, compressors, turbines, freezer chillers, blowers, fans and others
Environmental Plants Business	Municipal waste processing plants, industrial waste incineration plants, water treatments plants and others
Precision Machinery Business	Dry vacuum pumps, CMP equipment, plating equipment, exhaust−gas treatment equipment and others

(2) Information on reportable segments

The accounting policies for reportable segments are the same as those described in “3. Significant accounting policies.” Profits from reportable segments are based on the same accounting policy of the Group and profit figures are based on operating profit. Intersegment sales and transfers are recorded at the same prices used in transactions with customers.

As of the transition date (January 1, 2020)

(Millions of yen)

	Segment				Others (Note 1)	Total	Adjustment (Note 2)	Consolidated
	Fluid Machinery & Systems Business	Environmental Plants Business	Precision Machinery Business	Total				
Segment assets	324,886	56,334	136,628	517,849	37,150	554,999	60,465	615,465
Other items								
Investment in entities applying equity method	−	6,379	−	6,379	−	6,379	−	6,379

Notes: 1. “Others” in the table above is the operating segment for operations that are not included among reportable segments. It contains business support services and other activities.

2. The total value of the adjustment of segment assets for the Company was corporate assets of the Group amounting to ¥63,280 million, which was not allocated to reportable segments, and elimination of intersegment transactions amounting to ¥(2,814) million. The main corporate assets of the Group are cash and cash equivalents, a part of investment securities, deferred tax assets and others.

Fiscal year ended December 31, 2020

(Millions of yen)

	Segment				Others (Note 1)	Total	Adjustment (Notes 2, 3)	Consolidated (Note 4)
	Fluid Machinery & Systems Business	Environmental Plants Business	Precision Machinery Business	Total				
Revenue								
External customers	313,218	67,418	140,352	520,989	1,489	522,478	–	522,478
Intersegment and transfers	761	10	3	775	2,596	3,371	(3,371)	–
Total	313,979	67,429	140,355	521,764	4,085	525,849	(3,371)	522,478
Segment profit (loss)	19,801	6,869	11,626	38,297	(637)	37,660	(93)	37,566
Finance income								382
Finance costs								3,040
Share of profit (loss) of investments accounted for using equity method								847
Profit before tax								35,756
Segment assets	327,297	54,010	152,095	533,404	33,384	566,788	77,982	644,771
Other items								
Depreciation and amortization	10,330	899	5,760	16,990	2,900	19,890	(18)	19,872
Impairment losses	151	–	69	221	26	248	–	248
Capital expenditures	14,654	1,019	16,910	32,584	2,525	35,109	(62)	35,047
Investment in entities applying equity method	–	6,964	–	6,964	–	6,964	–	6,964

Notes: 1.“Others” in the table above is the operating segment for operations that are not included among reportable segments. It contains business support services and other activities.

2. The adjustment of segment profit (loss) is elimination of intersegment transactions.
The total value of the adjustment of segment assets for the Company was corporate assets of the Group amounting to ¥80,496 million, which was not allocated to reportable segments, and elimination of intersegment transactions amounting to ¥(2,513) million. The main corporate assets of the Group are cash and cash equivalents, a part of investment securities, deferred tax assets and others.

3. The adjustments of the items under “Other items” are elimination of intersegment transactions.

4. Segment profit (loss) has been reconciled with operating profit in the consolidated statement of profit or loss.

Fiscal year ended December 31, 2021

(Millions of yen)

	Segment				Others (Note 1)	Total	Adjustment (Notes 2, 3)	Consolidated (Note 4)
	Fluid Machinery & Systems Business	Environmental Plants Business	Precision Machinery Business	Total				
Revenue								
External customers	336,980	71,824	192,791	601,596	1,617	603,213	–	603,213
Intersegment and transfers	739	55	3	798	2,355	3,154	(3,154)	–
Total	337,719	71,880	192,794	602,394	3,973	606,368	(3,154)	603,213
Segment profit	24,793	5,632	28,035	58,461	1,168	59,629	1,743	61,372
Finance income								416
Finance costs								2,687
Share of profit (loss) of investments accounted for using equity method								1,200
Profit before tax								60,302
Segment assets	360,986	55,062	181,140	597,189	34,733	631,923	87,813	719,736
Other items								
Depreciation and amortization	10,930	806	6,981	18,717	2,739	21,457	(21)	21,435
Impairment losses	72	0	70	143	54	198	–	198
Capital expenditures	9,949	762	5,608	16,321	6,481	22,803	(44)	22,758
Investment in entities applying equity method	–	7,153	–	7,153	–	7,153	–	7,153

Notes: 1. “Others” in the table above is the operating segment for operations that are not included among reportable segments. It contains business support services and other activities.

2. The adjustment of segment profit is elimination of intersegment transactions.
The total value of the adjustment of segment assets for the Company was corporate assets of the Group amounting to ¥88,582 million, which was not allocated to reportable segments, and elimination of intersegment transactions amounting to ¥(769) million. The main corporate assets of the Group are cash and cash equivalents, a part of investment securities, deferred tax assets and others.

3. The adjustments of the items under “Other items” are elimination of intersegment transactions.

4. Segment profit has been reconciled with operating profit in the consolidated statement of profit or loss.

(3) Information on products and services

As the product and service categories are the same as the reportable segments, their descriptions are omitted.

(4) Information by region

Revenue from external customers by region is as follows.

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Japan	235,901	247,447
China	78,371	111,395
Other Asia	100,385	121,723
North America	41,939	44,216
Others	65,880	78,428
Total	522,478	603,213

Notes： 1. Revenues are classified by country or region based on the location of the customers.
2. Major countries and regions included in each category:
(1) Other Asia: Taiwan and South Korea
(2) North America: United States and Canada
(3) Others: Saudi Arabia and Brazil

Non−current assets (excluding financial instruments, deferred tax assets, and defined benefit asset, etc.) by region are as follows.

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Japan	113,089	122,321	124,006
China	8,446	9,000	10,567
Other Asia	6,737	6,301	6,358
United States	20,654	22,778	23,329
Others	10,140	9,812	20,335
Total	159,068	170,214	184,597

Notes: 1. Non−current assets are classified by country or region based on the location of the assets.
2. Major countries and regions included in each category:
(1) Other Asia: Taiwan and Vietnam
(2) Others: Turkey and Italy

(5) Information on major customers

No single external customer accounted for 10% or more of revenue.

6. Business combinations

Fiscal year ended December 31, 2020

There were no significant business combinations that occurred in the fiscal year ended December 31, 2020.

Fiscal year ended December 31, 2021

A significant business combination was conducted in the fiscal year ended December 31, 2021 as follows:

Based on a stock purchase agreement concluded on December 21, 2020, the Group has acquired all outstanding shares of Çiğli Su Teknolojileri A.Ş. and its subsidiaries, Vansan Makina Sanayi ve Ticaret A.Ş. and Vansan Makina Montaj ve Pazarlama A.Ş., which are Turkish pump manufacturers.

(1) Overview of the business combination

(i) Name and business of acquired companies

Names of acquired companies:

Çiğli Su Teknolojileri A.Ş.

Vansan Makina Sanayi ve Ticaret A.Ş.

Vansan Makina Montaj ve Pazarlama A.Ş.

Business description: Manufacture and sale of deep well motor pumps and vertical−type pumps

(ii) Date of acquisition: April 12, 2021

(iii) Percentage of voting rights acquired: 100.0%

(iv) Primary reason for the business combination:

To enhance the Company's global supply chain by strengthening access to markets in Europe, Central Asia, the Middle East and Africa in order to further expand its Standard Pumps Business.

(v) Legal form of the business combination: Cash acquisition of shares

(2) Consideration paid, fair value of assets acquired and liabilities assumed, and amount of goodwill as of the date of business combination

(Millions of yen)

	Amount
Fair value of acquisition costs	
Cash	10,768
Total	10,768
Fair value of acquired assets	
Cash and cash equivalents	392
Trade and other receivables	2,865
Inventories	2,232
Property, plant and equipment	1,108
Intangible assets	4,499
Other assets	757
Fair value of assumed liabilities	
Trade and other payables	2,683
Borrowings and lease liabilities	4,022
Other liabilities	1,688
Fair value of acquired assets and assumed liabilities (net)	3,460
Goodwill	7,307
Total	10,768

Notes: 1. For the fair value of trade and other receivables (mainly accounts receivable) worth ¥2,865 million, the total contract amount is ¥2,912 million and estimated contractual cash flows not expected to be recovered as of the acquisition date is

¥47 million.

2. Goodwill generated by this business combination is recorded in the Fluid Machinery & Systems Business and mainly comprises impacts of synergies with existing businesses and excess earning power expected from the acquisition that do not meet the requirements for recognition individually. No amount of this goodwill is expected to be deductible for tax purposes.
3. The amounts of acquired assets and assumed liabilities as well as goodwill were tentatively measured in the third quarter ended September 30, 2021 based on information available because purchase price allocation was incomplete. However, they were finalized during the fourth quarter ended December 31, 2021, and the finalization of provisional accounting treatments are reflected in the results. Details of amendments and amounts recognized accordingly during the measurement period are as follows:

(Millions of yen)

Goodwill (before revision)	11,051
Changes in intangible assets	(4,466)
Deferred tax liabilities	936
Others	(214)
Goodwill (after revision)	7,307

(3) Acquisition−related costs

Acquisition−related costs related to this business combination amounted to ¥176 million, all of which were recorded as selling, general and administrative expenses.

(4) Effect on the financial results

(i) Revenue and profit included in the consolidated statement of profit or loss for the fiscal year

Revenue: ¥6,531 million

Profit: ¥(885) million

(ii) Effect on revenue and profit in the consolidated statement of profit or loss assuming that the business combination was implemented at the beginning of the period (unaudited)

Revenue: ¥8,202 million

Profit: ¥(1,392) million

7. Cash and cash equivalents

Details of cash and cash equivalents are as follows:

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Cash and deposits	96,920	121,996	139,490
Securities	1,097	1,035	−
Securities, etc. with maturities over three months	(1)	−	−
Time deposits with maturities over three months	(2,761)	(2,487)	(3,001)
Total	95,256	120,544	136,488

The balance of cash and cash equivalents on the consolidated statement of financial position matches the balance of cash and cash equivalents on the consolidated statement of cash flows as of the transition date, December 31, 2020, and December 31, 2021.

8. Trade and other receivables

The components of trade and other receivables are as follows.

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Accounts and notes receivable − trade and electronically recorded monetary claims	141,502	123,536	131,529
Other receivables	1,596	1,306	1,310
Allowance for doubtful accounts (Note)	(2,217)	(2,500)	(2,718)
Total	140,881	122,343	130,121

Note: Trade and other receivables are presented net of allowance for doubtful accounts in the consolidated statement of financial position.

9. Inventories

The components of inventories are as follows:

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Merchandise and finished goods	18,640	20,347	21,676
Work in process	49,749	46,630	54,128
Raw materials and supplies	32,759	34,676	45,585
Total	101,150	101,654	121,389

Notes: 1. Inventories recognized as expenses and included in cost of sales during the fiscal years ended December 31, 2020 and 2021 amounted to ¥361,984 million and ¥398,450 million, respectively.

2. The write−downs of inventories recognized as cost of sales during the fiscal years ended December 31, 2020 and 2021 amounted to ¥4,084 million and ¥4,562 million, respectively. The amounts of reversals of write−downs for the fiscal years ended December 31, 2020 and 2021 were not material.

3. There were no inventories pledged as collateral for liabilities.

10. Other financial assets

The components of other financial assets are as follows:

(1) Current assets

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Time deposits	2,761	2,487	3,001
Loans receivable	18	13	14
Others	228	249	251
Total	3,007	2,750	3, 267

(2) Non-current assets

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Investment securities	6,234	4,121	2,146
Guarantee deposits	2,436	2,362	2,301
Long-term loans receivable	144	127	108
Others	950	1,092	1,685
Total	9,765	7,703	6,241

11. Property, plant and equipment

Property, plant and equipment consists of Group-held assets that do not meet the definition of investment property and right-of-use assets.

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Group-held property, plant and equipment	123,826	135,351	140,074
Right-of-use assets	26,527	23,411	21,317
Total	150,353	158,763	161,392

Right-of-use assets are as stated in “14. Leases.”

The changes in the carrying amount of Group−held property, plant and equipment during the period were as follows:

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of the transition date (January 1, 2020)	57,088	28,146	19,621	13,680	5,289	123,826
Purchases	634	1,459	−	23,057	540	25,692
Acquisition through business combination	−	−	−	−	−	−
Transfer from construction in progress	3,798	5,089	35	(10,618)	1,694	−
Depreciation	(3,948)	(6,183)	−	−	(2,384)	(12,516)
Impairment losses	(120)	(90)	(3)	(7)	(21)	(243)
Sale or disposal	(34)	(110)	(11)	(114)	(20)	(291)
Exchange differences on translation	(391)	(488)	(47)	(269)	(50)	(1,247)
Other changes	18	642	0	(524)	(4)	131
As of December 31, 2020	57,044	28,464	19,594	25,204	5,044	135,351
Purchases	840	1,735	−	10,584	756	13,916
Acquisition through business combination	231	241	224	8	70	776
Transfer from construction in progress	2,746	18,908	−	(23,971)	2,315	−
Depreciation	(4,145)	(7,408)	−	−	(2,529)	(14,084)
Impairment losses	(28)	(118)	(36)	−	(3)	(185)
Sale or disposal	(111)	(152)	1,608	(67)	(22)	1,254
Exchange differences on translation	1,529	1,286	94	732	179	3,821
Other changes	(205)	(2)	269	(505)	(331)	(775)
As of December 31, 2021	57,901	42,955	21,754	11,985	5,477	140,074

Depreciation is included in “cost of sales” and “selling, general and administrative expenses.” Impairment losses are included in other expenses.

The costs of property, plant and equipment owned by the Group are as follows.

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of the transition date (January 1, 2020)	128,816	139,485	22,527	13,694	40,246	344,771
As of December 31, 2020	131,186	141,344	22,500	25,225	40,871	361,128
As of December 31, 2021	136,487	161,510	23,029	11,995	43,458	376,482

Accumulated depreciation and accumulated impairment losses on property, plant and equipment owned by the Group are as follows.

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of the transition date (January 1, 2020)	71,728	111,339	2,906	14	34,956	220,944
As of December 31, 2020	74,142	112,880	2,905	21	35,827	225,776
As of December 31, 2021	78,586	118,554	1,275	10	37,981	236,407

12. Goodwill and intangible assets

Goodwill and intangible assets consist of assets owned by the Group and right−of−use assets.

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Goodwill and intangible assets owned by the Group	8,668	11,431	23,186
Right−of−use assets	46	19	18
Total	8,714	11,450	23,204

Right−of−use assets are as stated in “14. Leases.”

The changes in the carrying amounts of goodwill and intangible assets owned by the Group during the period are as follows:

(Millions of yen)

	Goodwill	Software	Other intangible assets	Total
As of the transition date (January 1, 2020)	774	6,504	1,389	8,668
Purchases	−	5,607	214	5,822
Internal development	−	11	110	121
Acquisition through business combination	−	−	−	−
Amortization	−	(2,623)	(150)	(2,773)
Impairment losses	−	(4)	−	(4)
Sale or disposal	−	(11)	(106)	(117)
Exchange differences on translation	(126)	2	(125)	(249)
Other changes	−	0	(36)	(35)
As of December 31, 2020	648	9,486	1,296	11,431
Purchases	−	6,491	224	6,716
Internal development	−	−	0	0
Acquisition through business combination	7,307	3	4,495	11,807
Amortization	−	(2,597)	(706)	(3,304)
Impairment losses	−	(12)	−	(12)
Sale or disposal	−	(44)	(9)	(53)
Exchange differences on translation	(2,410)	31	(1,317)	(3,696)
Other changes	−	274	23	298
As of December 31, 2021	5,545	13,633	4,008	23,186

Amortization is included in “Cost of sales” and “Selling, general and administrative expenses.” Impairment losses are included in other expenses.

The costs of goodwill and intangible assets owned by the Group are as follows:

(Millions of yen)

	Goodwill	Software	Other intangible assets	Total
As of the transition date (January 1, 2020)	774	30,852	5,540	37,168
As of December 31, 2020	648	35,777	5,564	41,989
As of December 31, 2021	5,545	42,138	8,453	56,137

Accumulated amortization and impairment losses of goodwill and intangible assets owned by the Group are as follows:

(Millions of yen)

	Goodwill	Software	Other intangible assets	Total
As of the transition date (January 1, 2020)	–	24,348	4,151	28,499
As of December 31, 2020	–	26,290	4,267	30,558
As of December 31, 2021	–	28,505	4,444	32,950

13. Impairment of non−financial assets

(1) Cash−generating unit

The Group categorizes its assets according to its operating segments by the smallest cash−generating unit that generate largely independent cash inflows, except for idle assets, assets held for sale, and assets to be disposed of which are grouped individually.

(2) Impairment losses

The Group recognizes an impairment loss when the recoverable amount of an asset is less than its carrying amount. Impairment losses are included in “Other expenses” in the consolidated statement of profit or loss and their breakdown by segment is provided in “5. Operating segments.”

Impairment losses by asset class are as follows.

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Buildings and structures	120	28
Machinery, equipment and vehicles	90	118
Land	3	36
Goodwill	−	−
Others	33	15
Total	248	198

Fiscal year ended December 31, 2020

For assets and idle assets with no prospect for future use that are held for disposal or sale, their carrying amount is reduced to their recoverable amount. The recoverable amount of assets scheduled for disposal is based on their value in use, and their carrying amount is reduced to the memorandum value, assuming the value in use is zero. Assets held for sale and idle assets are principally measured at fair value less costs of disposal. The fair value less costs of disposal is based on the estimated selling price, and is classified as level 3 in the fair value hierarchy.

Fiscal year ended December 31, 2021

For assets and idle assets with no prospect for future use that are held for disposal or sale, their carrying amount is reduced to their recoverable amount. The recoverable amount of assets scheduled for disposal is based on their value in use, and their carrying amount is reduced to the memorandum value, assuming the value in use is zero. Assets held for sale and idle assets are principally measured at fair value less costs of disposal. The fair value less costs of disposal is based on the estimated selling price, and is classified as level 3 in the fair value hierarchy.

(3) Impairment test on goodwill

The Group tests goodwill for impairment at least once in a fiscal year or as needed if there is an indication of impairment. The recoverable amount in the impairment test is calculated on the basis of value in use.

The carrying amount of the Group's major goodwill are as follows:

(Millions of yen)

Reportable segments	Cash−generating units or groups of cash−generating units	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Fluid Machinery & Systems Business	Çiğli Su Teknolojileri A.Ş. and its subsidiaries	−	−	4,915
Fluid Machinery & Systems Business	Others	774	648	629
	Total	774	648	5,545

The value in use is calculated by estimating the amount of future cash flows based primarily on the business plan and growth rate approved by the management and then discounting the estimated amount of cash flows to the present value. The business plan basically spans a maximum period of five years and is prepared so that it reflects the management's evaluation of future industry trends and past data and is aligned with external and internal information. The growth rate is determined with reference to the long−term expected growth rates of the markets to which cash−generating units belong (3.0% to 3.4% on the transition date, and during the fiscal years ended December 31, 2020 and 2021). The discount rate is calculated on the basis of the weighted average cost of capital before tax for each cash−generating unit (14.4% to 22.6% on the transition date, and during the fiscal years ended December 31, 2020 and 2021).

As a result, because the value in use was well above the carrying amount of cash−generating units on the transition date and during the fiscal year ended December 31, 2020, the Company determines that even if major assumptions vary within reasonably predictable range, material impairment is unlikely to occur. During the fiscal year ended December 31, 2021, the discount rate used for the calculation of the recoverable amount of the goodwill associated with Çiğli Su Teknolojileri A.Ş. and its subsidiaries was 14.4%. As a result, the recoverable amount exceeded the carrying amount by ¥531 million. This implies that a 0.5% rise in the discount rate could result in an impairment loss.

14. Leases

As lessee

(1) Components of right−of−use assets

The components of right−of−use assets are as follows.

The Group uses the underlying assets for leases primarily for business activities.

(Millions of yen)

	Type of underlying assets				Total
	Buildings and structures	Machinery, equipment and vehicles	Land	Others	
As of the transition date (January 1, 2020)	20,036	2,330	2,788	1,417	26,573
As of December 31, 2020	18,120	1,560	2,682	1,067	23,431
As of December 31, 2021	15,639	1,672	2,978	1,045	21,335

(2) Expenses and cash outflows relating to leases and additions to right−of−use assets

Expenses and cash outflows relating to leases and additions to right−of−use assets are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Depreciation charge for right−of−use assets		
Underlying assets of buildings and structures	2,991	2,622
Underlying assets of machinery, equipment and vehicles	819	687
Underlying assets of land	195	242
Underlying assets of other assets	617	543
Total depreciation charge for right−of−use assets	4,623	4,095
Expenses relating to leases		
Interest expense on lease liabilities	265	244
Expenses relating to short−term leases	324	428
Expenses relating to leases of low−value assets	776	687
Total expenses relating to leases	1,366	1,360
Cash outflow for leases	6,829	6,174
Additions to right−of−use assets	2,999	2,130

A maturity analysis of lease liabilities is as stated in “35. Financial instruments.”

(3) Extension options and termination options

In the Group, each company is responsible for managing its own lease contracts, and the terms and conditions of leases are individually negotiated and vary widely. Extension options and termination options are mainly included in real estate leases. Most of these leases contain extension options for one year or the same period as the original contract and early termination options exercisable upon prior written notice to the other party. These options are used as necessary to make effective use of lease contracts in business activities.

15. Subsidiaries and associates

The information is as stated in “I. Overview of Company, 4 Subsidiaries and Associates.”

16. Investments accounted for using equity method

The carrying amount of investments in an individually immaterial jointly controlled entity and financial information on such entity are as follows. These amounts take into account the Group's equity ratio.

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Total carrying amount	6,379	6,964	7,153

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Profit	847	1,200
Other comprehensive income	18	86
Comprehensive income	865	1,287

17. Income taxes

(1) Deferred tax assets and liabilities

Deferred tax assets and liabilities are primarily attributable to the following items:

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Deferred tax assets			
Inventories	2,374	1,488	1,582
Provision for warranties for completed construction	1,270	1,720	1,768
Retirement benefit liability	3,182	2,362	1,647
Lease liabilities	94	105	75
Tax loss carry forward	114	510	739
Provision for bonuses	1,136	1,294	1,805
Others	11,980	11,212	11,183
Total deferred tax assets	20,152	18,695	18,802
Deferred tax liabilities			
Equity instruments	(61)	(40)	(56)
Retained earnings of subsidiaries	(3,666)	(3,850)	(3,811)
Others	(2,080)	(1,855)	(2,671)
Total deferred tax liabilities	(5,808)	(5,746)	(6,539)
Net deferred tax assets	14,344	12,949	12,263

The changes in net deferred tax assets or liabilities are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Balance at beginning of period	14,344	12,949
Recognized through profit or loss	(1,328)	302
Recognized through other comprehensive income (Note 1)	(204)	(463)
Increase (decrease) by business combination	-	(811)
Others (Note 2)	136	285
Balance at end of period	12,949	12,263

Notes: 1. Major changes in the fiscal year ended December 31, 2020 include a decrease of ¥197 million in deferred tax assets related to retirement benefit liability. Major changes in the fiscal year ended December 31, 2021 include a decrease of ¥179 million in deferred tax assets related to retirement benefit liability and a decrease of ¥263 million of deferred tax assets related to equity instruments included in others.

2. Major changes in the fiscal year ended December 31, 2021 include an increase of ¥936 million in deferred tax liabilities related to fixed assets included in others that were recognized as a result of the acquisition of Çiğli Su Teknolojileri A.Ş. and its subsidiaries, Vansan Makina Sanayi ve Ticaret A.Ş. and Vansan Makina Montaj ve Pazarlama A.Ş.

The Group considers the probability that a portion of or all of the deductible temporary differences or tax loss carry forward can be utilized against future taxable profits in the recognition of deferred tax assets. In assessing the recoverability of deferred tax assets, the Group considers the scheduled reversal of deferred tax liabilities, projected future taxable profit and tax planning strategies. For the recognized deferred tax assets, based on the level of historical taxable profit and projections for future taxable profit over the periods for which the deferred tax assets can be recognized, the Group determined that it is probable that the tax benefits can be utilized.

Deductible temporary differences and tax loss carry forward for which no deferred tax assets were recognized are as follows:

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Deductible temporary differences	10,760	11,126	9,607
Tax loss carry forward	3,506	1,928	1,247

The tax loss carry forward for which no deferred tax asset was recognized will expire as follows:

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
1st year	1,239	143	174
2nd year	384	165	119
3rd year	304	360	106
4th year	314	114	118
5th year and thereafter	1,263	1,143	728
Total	3,506	1,928	1,247

The aggregate taxable temporary differences associated with investments in subsidiaries and associates for which no deferred tax liabilities were recognized amounted to none and ¥1,279 million as of December 31, 2020 and 2021, respectively. The Group did not recognize deferred tax liabilities for these temporary differences because it was able to control the timing of the reversal of these temporary differences, and it was probable that the temporary differences will not reverse in the foreseeable future.

(2) Income tax expense

The components of income tax expense are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Current income tax expense	8,477	14,176
Deferred tax expense		
Origination and reversal of temporary differences	351	(1,916)
Assessment of recoverability of deferred tax assets	976	1,614
Total	9,805	13,873

The Company and its consolidated subsidiaries in Japan are mainly subject to corporate tax, inhabitant tax, and deductible enterprise tax. The effective statutory tax rate in Japan calculated based on these taxes was 30.6% for both fiscal years ended December 31, 2020 and 2021.

The difference between the effective statutory tax rate and the average effective tax rate shown in the consolidated statement of profit or loss is attributable to the following:

(%)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Effective statutory tax rate	30.6	30.6
Expenses not deductible for tax purposes	2.9	1.4
Income not taxable for tax purposes	(0.8)	(1.7)
Differences from applicable tax rates for overseas subsidiaries	(6.1)	(4.6)
Share of profit (loss) of investments accounted for using equity method	(0.5)	(0.1)
Unrecognized deferred tax assets	(1.1)	(2.3)
Others	2.3	(0.5)
Average effective tax rate	27.4	23.0

18. Other assets

The components of other assets are as follows:

(1) Current assets

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Consumption taxes receivable	5,299	6,288	7,932
Prepaid expenses	4,983	5,352	7,430
Advance payments	2,631	3,177	4,343
Others	1,482	1,126	1,467
Total	14,396	15,945	21,173

(2) Non−current assets

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Defined benefit asset	4,799	5,099	7,497
Long−term prepaid expenses	1,098	1,732	1,647
Total	5,897	6,832	9,144

19. Trade and other payables

The components of trade and other payables are as follows:

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Accounts and notes payable − trade and electronically recorded obligations	120,849	129,738	148,799
Other payables	16,994	12,962	13,758
Others	−	−	−
Total	137,843	142,701	162,558

20. Bonds, borrowings and lease liabiliies

The components of bonds, borrowings and lease liabiliies are as follows:

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021	Average interest rate (%) (Note 1)	Payment due
Short−term borrowings	32,479	23,352	35,847	1.08	−
Current portion of long−term borrowings	4,795	4,704	5,381	1.16	−
Current portion of bonds payable	−	−	10,000	−	−
Long−term borrowings	30,660	26,666	29,075	0.75	2026
Lease liabiliies	26,060	23,627	21,741	−	2022–2031
Bonds payable	10,000	20,000	10,000	−	−
Total	103,997	98,350	112,046		
Current liabilities	42,805	33,404	56,578		
Non−current liabilities	61,191	64,946	55,467		
Total	103,997	98,350	112,046		

Notes: 1. "Average interest rate" represents the weighted−average rate applicable to the ending balances of borrowings. Borrowings hedged by derivative transactions, such as interest rate swaps, for the purpose of avoiding interest rate fluctuation risks, are calculated using the interest rates under such derivative transactions.

2. The details of assets pledged as collateral are stated in "39. Collaterals."

The issuance conditions for bonds are as follows:

(Millions of yen)

Company name	Name of bond	Date of issue	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021	Interest rate (%)	Collateral	Payment due
The Company	Unsecured straight bond (Series 9)	2017	10,000	10,000	10,000	0.18	None	October 24, 2022
The Company	Unsecured straight bond (Series 10)	2020	−	10,000	10,000	0.19	None	October 22, 2025
Total			10,000	20,000	20,000	−	−	−

21. Other financial liabilities

The components of other financial liabilities are as follows.

(1) Current liabilities

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Guarantee deposits received	46	46	46
Others	39	37	51
Total	85	84	98

(2) Non−current liabilities

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Long−term guarantee deposits received	80	81	91
Others	154	101	31
Total	234	182	123

22. Other liabilities

The components of other current liabilities and other non−current liabilities are as follows.

(1) Current liabilities

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Accrued expenses	6,943	7,080	7,596
Refund liabilities	3,614	3,235	1,884
Deposits received	3,886	4,311	4,937
Other short−term employee benefit liabilities	12,678	13,677	16,526
Others	12,304	5,338	6,297
Total	39,427	33,643	37,243

(2) Non−current liabilities

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Other long−term employee benefit liabilities	2,173	2,377	2,930
Others	926	530	899
Total	3,099	2,907	3,829

23. Provisions

The changes in provisions are as follows.

(Millions of yen)

	Provision for product warranties	Provision for construction losses	Asset retirement obligations	Provision for warranties for completed construction
As of the transition date (January 1, 2020)	3,530	8,105	2,453	3,336
Increase during the period	3,095	4,658	20	3,108
Decrease during the period (used for intended purpose)	(2,359)	(2,793)	(58)	(1,829)
Decrease during the period (reversal of provisions)	(174)	(3,275)	(82)	(796)
Exchange differences on translation	(2)	(89)	(13)	(25)
As of December 31, 2020	4,089	6,605	2,319	3,793
Increase during the period	3,763	14,740	163	3,727
Decrease during the period (used for intended purpose)	(2,882)	(2,431)	(27)	(3,423)
Decrease during the period (reversal of provisions)	(219)	(12,497)	–	(548)
Exchange differences on translation	51	0	32	0
As of December 31, 2021	4,802	6,418	2,488	3,548

Provisions in the consolidated financial statements are as follows.

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Current liabilities	14,972	14,489	14,769
Non−current liabilities	2,453	2,319	2,488
Total	17,426	16,808	17,257

1. Provision for product warranties

To cover liability for defect warranty on sales contracts, the Company provides for an estimated amount of guarantee expenses obtained by multiplying the amount of product sales by a rate of incidence computed based on past results. The expenditure is usually expected to incur after a period of one to three years after the end of the fiscal year.

2. Provision for construction losses

To cover possible losses on contracted construction projects, the Company provides for an estimated amount of guarantee expenses obtained by multiplying the amount of product sales by a reasonably computed rate of incidence.

The timing of expenditures is affected by the progress of the project and other factors.

3. Asset retirement obligations

The obligations mainly consist of asset removal costs associated with restoration obligations under lease contracts for the Company’s offices. These costs are usually expected to be incurred after one year or more from the end of the fiscal year, but will be affected by future business plans.

4. Provision for warranties for completed construction

To cover liability for defect warranty on completed construction, the Company provides for an estimated amount of guarantee expenses obtained by multiplying the revenue of completed construction contracts by a rate of incidence based on past results. The expenditure is usually expected to incur after a period of one to three years after the end of the fiscal year.

24. Employee benefits

The Company and some domestic subsidiaries have a defined benefit corporate pension plan, a lump−sum payment plan, and a defined contribution pension plan to provide for the payment of retirement benefits to employees. Retirees of the Company and some domestic subsidiaries have an option to receive retirement benefits in the form either of a lump−sum payment or pension payments from a corporate pension fund. The amount of benefits is principally calculated based on the cumulative number of points awarded under the point−based benefits system. The points consist of "post qualification points," which are awarded based on the role and grade of each employee and "interest points," which are awarded based on market interest rate movements. In addition, the Company and some domestic subsidiaries have multi−employer plans. As the amount of pension assets for these plans can be reasonably calculated, they are included in the note regarding defined benefit plans.

The Company's pension plans are operated by a corporate pension fund legally separate from the Company in accordance with laws and regulations. The board of the corporate pension fund and pension management trustee are required by laws and regulations to act in the best interest of plan participants, and are responsible for managing plan assets in accordance with prescribed policies.

Meanwhile, some foreign subsidiaries have defined benefit and defined contribution pension plans.

Plan assets are basically managed soundly, but are exposed to investment risks related to financial instruments. In addition, since defined benefit obligations are measured based on various actuarial assumptions related to pension accounting, such as discount rates, they are exposed to risks of changes in these assumptions.

During the fiscal year ended December 31, 2020, some domestic subsidiaries transferred a portion of their lump−sum payment plans to defined benefit corporate pension and defined contribution pension plans. As a result of the transfer, gain on the transfer of pension plan of ¥411 million was recognized in the consolidated statement of profit or loss.

(1) Defined benefit plans

(i) Reconciliation of present value of defined benefit obligations and plan assets

The relationship between the present value of defined benefit obligations and plan assets, and retirement benefit liability and asset recognized in the consolidated statement of financial position is as follows:

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Present value of funded defined benefit obligations	68,171	68,344	71,109
Plan assets	(69,859)	(72,381)	(78,239)
Subtotal	(1,688)	(4,037)	(7,130)
Present value of unfunded defined benefit obligations	8,893	8,432	8,045
Net defined benefit liability (asset) recognized in the consolidated statement of financial position	7,205	4,395	915
Retirement benefit liability	12,004	9,494	8,413
Defined benefit asset	4,799	5,099	7,497

Note: Defined benefit asset is included in "Other non−current assets" in the consolidated statement of financial position.

(ii) Reconciliation of present value of defined benefit obligations

The changes in the present value of defined benefit obligations are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Balance of present value of defined benefit obligations at beginning of period	77,064	76,776
Service cost	3,284	3,017
Interest cost	1,275	941
Remeasurements		
Actuarial gain or loss (demographic assumptions)	(1,807)	320
Actuarial gain or loss (financial assumptions)	3,790	(2,730)
Actuarial gain or loss (others)	87	(151)
Effect of transfer of pension plan	(609)	-
Benefits paid	(4,191)	(4,060)
Effects of business combinations and disposals	-	72
Others	(2,118)	4,968
Balance of present value of defined benefit obligations at end of period	76,776	79,154

The weighted average durations of defined benefit obligations of the Company and its consolidated subsidiaries as of December 31, 2020 and 2021 were 12.1 years and 11.8 years, respectively.

(iii) Reconciliation of plan assets

The changes in plan assets are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Balance of plan assets at beginning of period	69,859	72,381
Interest income	1,776	925
Remeasurements – return on plan assets		
(excluding amounts included in interest income)	3,213	1,150
Employers’ contributions	2,486	2,586
Benefits paid	(3,081)	(3,130)
Effects of business combinations and disposals	-	-
Others	(1,873)	4,326
Balance of fair value of plan assets at end of period	72,381	78,239

We periodically examine the pension financing and recalculate the amount of contributions in accordance with the rules of the corporate pension fund in order to keep the balance of pension finance in preparation for the appropriation for and shortage in future payments of benefits. The Group plans to pay contributions of ¥2,710 million to the defined benefit plans in the fiscal year ending December 31, 2022.

(iv) Major components of plan assets

The components of the fair value of plan assets are as follows:

(Millions of yen)

	As of the transition date (January 1, 2020)			As of December 31, 2020			As of December 31, 2021		
	Quoted prices in active markets		Total	Quoted prices in active markets		Total	Quoted prices in active markets		Total
	Quoted	None		Quoted	None		Quoted	None	
Shares	9,258	599	9,857	8,851	42	8,893	8,249	39	8,289
Debt securities	0	27,542	27,542	8	30,149	30,157	55	33,971	34,027
Life insurance general account	-	10,970	10,970	-	11,508	11,508	-	12,069	12,069
Others	3,976	17,513	21,489	3,672	18,147	21,820	4,101	19,751	23,852
Total	13,234	56,625	69,859	12,532	59,848	72,381	12,406	65,832	78,239

Note: Others consist of cash equivalents and jointly operated trusts, etc. Although there are no quoted market prices for the jointly operated trusts in active markets, investments held by the jointly operated trusts include listed shares and listed bonds that have quoted market prices in active markets.

The Group’s plan assets are managed to optimize the investment returns at acceptable risks in order to ensure future payments of benefits to employees. Plan assets are mainly invested in a broadly diversified portfolio of Japanese and foreign stocks and debt securities. The Group has built an efficient basic portfolio (combination of asset allocation) by estimating the expected return and risk and correlation coefficient of stocks, debt securities and other instruments. The Group also strives to maintain the asset allocation based on the basic portfolio over the medium to long term by rebalancing it as needed.

(v) Key actuarial assumptions

Key actuarial assumptions are as follows:

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Discount rate			
The Company and domestic subsidiaries	Mainly 0.4%	Mainly 0.4%	Mainly 0.4%
Overseas subsidiaries	Mainly 3.1%	Mainly 2.2%	Mainly 2.7%

The effect on defined benefit obligations of a 0.5% change in discount rates used for actuarial calculations is as follows:

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
0.5% increase in discount rate	4,160	4,633
0.5% decrease in discount rate	(4,053)	(3,567)

Note: In calculating defined benefit obligations in the sensitivity analysis, the same method is applied as that for calculation of defined benefit obligations recognized in the consolidated statement of financial position. The sensitivity analysis is conducted at the financial reporting date based on the movement of reasonably estimable assumptions. The sensitivity analysis assumes that all actuarial assumptions other than those subject to the analysis are constant, but in reality, changes in other actuarial assumptions may affect the result of analysis.

(2) Defined contribution plan

The amounts of expenses recognized for the defined contribution plan for the fiscal years ended December 31, 2020 and 2021 were ¥7,539 million and ¥7,396 million, respectively.

Note: The amounts include employers' share of employee pension insurance premiums under the Japanese Employees' Pension Insurance Act.

(3) Employee benefit expenses

The total employee benefit expenses for the fiscal years ended December 31, 2020 and 2021 were ¥123,256 million and ¥131,718 million, respectively, and were recognized in "cost of sales" and "selling, general and administrative expenses" in the consolidated statement of profit or loss.

25. Equity and other equity items

(1) Share capital

(i) Number of shares authorized

The number of shares authorized as of the transition date and in the fiscal years ended December 31, 2020 and 2021 was 200,000 thousand common shares, respectively.

(ii) Shares issued

The changes in shares issued are as follows:

(Shares)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Number of shares issued		
Balance at beginning of period	95,129,853	95,391,453
Increase during the period	261,600	122,180
Decrease during the period	–	–
Balance at end of period	95,391,453	95,513,633

Notes: 1. All shares issued by the Company are common shares with no par value, and the shares issued are fully paid in.

2. The increase in shares issued during the fiscal year ended December 31, 2020 consisted of the following: an increase of 147,500 shares due to the exercise of subscription rights to shares, an increase of 88,500 shares due to the issuance of new shares as restricted stock compensation, and an increase of 25,600 shares due to the issuance of new shares as performance−linked stock compensation.

3. The increase in shares issued during the fiscal year ended December 31, 2021 consisted of the following: an increase of 81,500 shares due to the exercise of subscription rights to shares and an increase of 40,680 shares due to the issuance of new shares as restricted stock compensation.

(iii) Treasury shares

The changes in treasury shares are as follows:

(Shares)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Balance at beginning of period	5,784	20,422
Increase during the period	14,638	3,515,732
Decrease during the period	–	81
Balance at end of period	20,422	3,536,073

Notes: 1. The increase in treasury shares during the fiscal year ended December 31, 2020 was due to an increase of 1,338 shares from the purchase of shares of less than one unit and an increase of 13,300 shares from the acquisition without compensation of restricted stock compensation.

2. The increase in treasury shares during the fiscal year ended December 31, 2021 was due to an increase of 203 shares from the acquisition without compensation under the restricted stock compensation scheme, an increase of 2,129 shares from the purchase of shares of less than one unit, and an increase of 3,513,400 shares from the repurchase of treasury shares following the resolution at the meeting of the Board of Directors.

3. The decrease in treasury shares during the fiscal year ended December 31, 2021 was due to a decrease of 81 shares from the sale of shares of less than one unit.

(2) Surplus

(i) Capital surplus

The Companies Act provides that at least half of the amount paid in or delivered upon the issuance of shares shall be included in share capital, with the remainder included in legal capital surplus, which is a component of capital surplus. Legal capital surplus may be included in share capital by resolution of a general meeting of shareholders.

(ii) Retained earnings

The Companies Act provides that an amount equal to 10% of a decrease in surplus due to distribution of surplus shall be appropriated as legal capital surplus or legal retained earnings until the total amount of legal capital surplus and legal retained earnings included in retained earnings equals 25% of share capital. The amount accumulated in legal retained earnings may be used to offset deficit. Further, legal retained earnings may be reversed by a resolution of a general meeting of shareholders.

The amount available for distribution under the Companies Act is calculated based on the amount of retained earnings recorded in the Company's accounting records prepared in accordance with accounting principles generally accepted in Japan.

The Companies Act also sets certain limits on the calculation of amounts available for distribution, and therefore the Company distributes retained earnings within those limits.

(3) Details and purpose of other components of equity

(i) Exchange differences on translation of foreign operations

These are exchange differences resulting from the translation of financial statements of foreign operations.

(ii) Cash flow hedges

This is the effective portion of gains or losses on hedging instruments in a cash flow hedge.

(iii) Net change in fair value of financial assets (equity financial assets) designated as measured at fair value through other comprehensive income

This is the cumulative amount of net change in fair value of an equity financial asset measured at fair value through other comprehensive income that occurred before the asset was derecognized or its fair value decreased significantly.

(iv) Remeasurements of defined benefit plans

This is the variable portion arising from remeasurements of defined benefit plans.

26. Dividends

Dividends paid in each fiscal year are as follows.

Fiscal year ended December 31, 2020

Date of resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend paid per share (Yen)	Cut-off date	Effective date
March 27, 2020 Ordinary General Meeting of Shareholders	Common shares	2,853	30.00	December 31, 2019	March 30, 2020
August 11, 2020 Board of Directors	Common shares	2,859	30.00	June 30, 2020	September 11, 2020

Fiscal year ended December 31, 2021

Date of resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend paid per share (Yen)	Cut-off date	Effective date
March 26, 2021 Ordinary General Meeting of Shareholders	Common shares	5,722	60.00	December 31, 2020	March 29, 2021
August 13, 2021 Board of Directors	Common shares	4,733	50.00	June 30, 2021	September 14, 2021

Dividends with cut-off dates falling in the fiscal year but whose effective dates fall in the following fiscal year are as follows.

Fiscal year ended December 31, 2020

Date of resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend paid per share (Yen)	Cut-off date	Effective date
March 26, 2021 Ordinary General Meeting of Shareholders	Common shares	5,722	60.00	December 31, 2020	March 29, 2021

Fiscal year ended December 31, 2021

Date of resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend paid per share (Yen)	Cut-off date	Effective date
March 29, 2022 Ordinary General Meeting of Shareholders	Common shares	10,393	113.00	December 31, 2021	March 30, 2022

27. Share-based payment

The Group has adopted a share-based compensation scheme for its Directors, Executive Officers, and employees with the aim of incentivizing them to contribute to sustainable improvement of its corporate value and to share value with its shareholders.

(1) Stock options

(i) Overview of the stock option plan

The Group has adopted a stock option plan. The Group grants stock options to its Directors, Executive Officers, and employees by resolution of the Board of Directors based on the details approved at a general meeting of shareholders. The exercise period of stock options is set forth in the allotment agreements. The options shall expire if they are not exercised within the set exercise period.

The Company's stock options are accounted for as equity-settled share-based payments.

(ii) Details of stock options

	Grant date	Number granted (Shares)	Exercise price (Yen)	Vesting conditions	Exercise period
1st subscription rights to shares	November 5, 2009	244,600	1	(Note)	From July 1, 2011 to November 5, 2024
2nd subscription rights to shares	September 28, 2010	7,200	1	(Note)	From July 1, 2011 to November 5, 2024
3rd subscription rights to shares	September 27, 2011	323,000	1	(Note)	From July 1, 2014 to June 30, 2026
4th subscription rights to shares	October 1, 2012	106,800	1	(Note)	From July 1, 2014 to June 30, 2026
5th subscription rights to shares	October 1, 2013	42,400	1	(Note)	From July 1, 2014 to June 30, 2026
6th subscription rights to shares	October 1, 2014	261,800	1	(Note)	From July 1, 2017 to June 30, 2029
7th subscription rights to shares	October 1, 2015	89,400	1	(Note)	From July 1, 2017 to June 30, 2029
8th subscription rights to shares	October 1, 2016	38,000	1	(Note)	From July 1, 2017 to June 30, 2029
9th subscription rights to shares	October 1, 2017	73,700	1	(Note)	From April 1, 2020 to March 31, 2032

Note: As stated in "IV. Information About Reporting Company, 1 Company's Shares, etc. (2) Subscription rights to shares."

(iii) Changes in the number of stock options and weighted average exercise price

(Shares)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Outstanding at beginning of period	486,100	324,000
Expired	14,600	–
Exercised	147,500	81,500
Forfeited due to expiration	–	–
Outstanding at end of period	324,000	242,500
Exercisable at end of period	324,000	242,500

Notes: 1. The number of stock options is presented by converting into the number of equivalent shares.

2. The weighted average exercise price is 1 yen for all stock options.

3. The weighted average share prices on the dates of exercise in the fiscal years ended December 31, 2020 and 2021 were ¥2,769 and ¥4,302, respectively.

4. The weighted average remaining contractual life of the share options unexercised as of the year end in the fiscal years ended December 31, 2020 and 2021 was 7.6 years and 6.7 years, respectively.

(2) Restricted stock compensation scheme

(i) Overview of the restricted stock compensation scheme

Under this scheme, which requires continuous service as a Director, etc. of the Company for a certain period of time, the eligible person shall pay all of the monetary remuneration claims paid by the Company in the form of property contributed in kind, and in exchange, receive common shares issued by the Company. The issuance of the Company's common shares under the scheme is subject to the execution of an agreement between the Company and the eligible Director, etc. The agreement specifies that (i) the eligible Director, etc. shall not transfer the shares to a third party, create security interest on, or dispose of the shares in any other way for a certain period of time; and that (ii) the Company shall acquire such shares without consideration upon the occurrence of certain events. For non-resident eligible Directors, etc., in lieu of the restricted stock compensation scheme, the Company will pay monetary compensation with the same economic value as such compensation.

The transactions under the restricted stock compensation scheme are equity-settled involving the distribution of the Company's common shares, or cash-settled in the form of cash distribution. The former is accounted for as equity-settled share-based payments, and the latter as cash-settled share-based payments.

(ii) Number and fair value of shares granted during the period

	Grant date	Number granted (Shares)	Fair value at grant date (Yen)
Restricted stock compensation	May 12, 2021	40,680	5,000

Notes: 1. Fair values of shares granted are measured based on observable market prices.
2. The expected dividends are not incorporated into the measurement of fair values.

(3) Performance-linked stock compensation scheme

(i) Overview of the performance-linked stock compensation scheme

Under this scheme, which requires continuous service as a Director, etc. of the Company for a certain period of time, as well as the attainment of Company's business performance targets prescribed by the Company's Board of Directors, the eligible person shall pay all of the monetary remuneration claims paid by the Company in the form of property contributed in kind, and in exchange, receive common shares issued by the Company.

With respect to the performance-linked stock compensation, the degree of achievement of performance targets is reviewed at a meeting of officers, etc. after the end of the performance evaluation period, and a resolution is made on the actual amount to be paid. The amount equivalent to 40% of the compensation shall be paid in cash in consideration of income taxes, etc. borne by officers and employees. For non-resident eligible Directors, etc., in lieu of the performance-linked stock compensation, the Company will pay monetary compensation with the same economic value as the relevant stock compensation.

The transactions under the performance-linked stock compensation scheme are equity-settled involving the distribution of the Company's common shares, or cash-settled in the form of cash distribution. The former is accounted for as equity-settled share-based payments, and the latter as cash-settled share-based payments.

(ii) Number and fair value of shares granted during the period

Not applicable.

(4) Impact of share−based payment transactions on the Group’s profit or loss and financial position

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
(1) Cash−settled share−based payments		
Cost of sales	(7)	1
Selling, general and administrative expenses	32	396
Other non−current liabilities	98	492
(2) Equity−settled share−based payments		
Cost of sales	(10)	4
Selling, general and administrative expenses	194	729
Other expenses	4	1

There was no intrinsic value associated with (1) cash−settled share−based payments vested as at end of the period during the fiscal year ended December 31, 2020. Such intrinsic value was ¥41 million during the fiscal year ended December 31, 2021.

28. Revenue

(1) Disaggregation of revenue

The Group has the following three reportable segments as stated in “5. Operating segments”: Fluid Machinery & Systems Business, Environmental Plants Business, and Precision Machinery Business. The Company has disaggregated its revenue by business. The relation between the revenue disaggregated by business and revenue from each reportable segment is as follows.

The amount of revenue recognized from other sources was not material.

(Millions of yen)

Reportable segments	Business	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Fluid Machinery & Systems Business	Pumps Business	168,179	191,502
	Compressors and Turbines Business	95,812	91,217
	Chillers Business	35,524	40,737
	Others	13,701	13,522
Environmental Plants Business		67,418	71,824
Precision Machinery Business		140,352	192,791
Others		1,489	1,617
Total		522,478	603,213

Note: Above amounts are exclusive of intra−group transactions.

(2) Contract balance

The balance of receivables from contracts with customers, contract assets, contract liabilities, and refund liabilities is as follows:

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Receivables from contracts with customers	141,502	123,536	131,529
Contract assets	64,632	76,533	86,887
Contract liabilities	20,728	40,056	49,771
Refund liabilities	3,614	3,235	1,884

Consideration for receivables from contracts with customers is mostly received within one year after fulfilling obligations in accordance with payment conditions set forth separately. Receivables from contracts with customers are recognized in “Trade and other receivables” on the consolidated statement of financial position.

Contract assets consist primarily of the rights to receive consideration in exchange for the fulfilled portion of contractual obligations, which is measured based on the progress of such obligations at the end of the reporting period for construction contracts, excluding receivables. The Group's rights to the consideration are transferred to receivables when they become unconditional, requiring only the passage of time, before the consideration is due and payable.

Impairment losses recognized on receivables from contracts with customers and contract assets during the fiscal years ended December 31, 2020 and 2021 were ¥265 million and ¥232 million, respectively.

Contract liabilities are recognized primarily for the portion for which consideration has been received from the customer but the performance obligation has not been satisfied. Contract liabilities increase when the Company receives consideration from customers before the transfer of goods or services, and decrease when performance obligations have been fulfilled.

Of the revenue recognized during the fiscal years ended December 31, 2020 and 2021, the amounts included in the beginning balances of contract liabilities were ¥20,819 million and ¥32,723 million, respectively.

Refund liabilities are measured against discounts, late charges, etc. to the extent that it is highly probable that no significant reversals will occur, using all reasonably available information to estimate the amount of consideration.

The amount of revenue recognized from performance obligations satisfied in prior periods was not material.

(3) Transaction prices allocated to remaining performance obligations

Transaction prices allocated to unsatisfied performance obligations are as follows. There are no material amounts of consideration arising from contracts with customers that are not included in the transaction price.

(Millions of yen)

Reportable segments	As of December 31, 2020	As of December 31, 2021
Fluid Machinery & Systems Business	194,276	224,365
Environmental Plants Business	226,743	285,242
Precision Machinery Business	46,537	141,756
Others	18	176
Total	467,576	651,541

These transactions mainly fall under long-term comprehensive contracts in the Custom Pumps and Compressors & Turbines businesses in Fluid Machinery & Systems Business, as well as Environmental Plants Business, and most of them are related to construction contracts that satisfy performance obligations over a long period of time exceeding one year. Unsatisfied performance obligations in each reportable segment are largely expected to be completed and recognized as revenue within the following periods from the end of each fiscal year.

Fluid Machinery & Systems Business: within 3 years

Environmental Plants Business: within 20 years

Precision Machinery Business: within 1 year

(4) Assets recognized from costs incurred to obtain or fulfill a contract

Of the incremental costs incurred to obtain contracts with customers and the costs to fulfill contracts that are related directly to the contracts, the Group recognizes the portion that it believes is collectible as assets, and records such portion as other assets in the consolidated statement of financial position. The incremental costs incurred to obtain contracts refer to the costs that the Group has incurred to obtain contracts with customers but would not have incurred if the contract had not been obtained.

The incremental costs incurred to obtain contracts that are capitalized at the Group are primarily sales commissions paid to distributors to acquire sales contracts. The costs incurred to fulfill contracts are primarily bid preparation expenses and expenses required for development and research activities prior to public announcement. If the amortization period of the asset to be recognized is one year or less, the incremental cost of obtaining contracts is expensed as incurred, using the practical expedient.

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Assets recognized from costs incurred to obtain contracts	259	239	130
Assets recognized from costs incurred to fulfill contracts	–	–	–
Total	259	239	130

These assets are amortized based on the pattern of transfer to customers of goods and services related to applicable construction contracts. The amounts of amortization attributable to assets recognized from the contract costs during the fiscal years ended December 31, 2020 and 2021 were ¥168 million and ¥177 million, respectively.

29. Selling, general and administrative expenses

The components of selling, general and administrative expenses are as follows.

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Personnel expenses	47,407	51,519
R&D expenses	12,507	13,575
Packing and transportation costs	8,401	7,724
Depreciation and amortization	7,021	7,800
Other expenses	33,224	39,932
Total	108,563	120,553

30. Other income and expenses

The components of other income and expenses are as follows.

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Other income		
Gain on disposal of non−current assets	42	3,100
Others	888	1,031
Total	931	4,131
Other expenses		
Loss on disposal of non−current assets	461	264
Others	785	582
Total	1,246	847

31. R&D expenses

The R&D expenses recognized during the fiscal years ended December 31, 2020 and 2021 were ¥12,507 million and ¥13,575 million, respectively.

32. Finance income and finance costs

The components of finance income are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Interest income		
Financial assets measured at amortized cost	339	365
Dividend income		
Financial assets measured at fair value through other comprehensive income	40	22
Foreign exchange gain or loss	–	–
Others		
Financial assets measured at fair value through profit or loss	2	28
Others	–	–
Total	382	416

The components of finance costs are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Interest expenses		
Financial liabilities measured at amortized cost	1,170	1,053
Lease liabilities	265	244
Foreign exchange gain or loss	1,323	1,206
Others		
Financial assets measured at fair value through profit or loss	5	16
Others	274	166
Total	3,040	2,687

33. Earnings per share

(1) Basic earnings per share are calculated as follows.

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Profit attributable to owners of parent (Millions of yen)	24,236	43,616
Weighted average number of common shares outstanding during the period (Thousands of shares)	95,284	94,114
Basic earnings per share (Yen)	254.36	463.44

(2) Diluted earnings per share are calculated as follows.

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Profit attributable to owners of parent (Millions of yen)	24,236	43,616
Adjustment to profit (Millions of yen)	–	–
Profit used to calculate diluted earnings per share (Millions of yen)	24,236	43,616
Weighted average number of common shares outstanding during the period (Thousands of shares)	95,284	94,114
Number of shares adjusted for stock options (Thousands of shares)	382	275
Average number of diluted common shares during the period (Thousands of shares)	95,667	94,390
Diluted earnings per share (Yen)	253.34	462.09

Note: No shares were excluded from the calculation of average number of diluted common shares during the period for their anti-dilutive effect.

34. Other comprehensive income

The amounts of reclassification adjustments and tax effects relating to other comprehensive income are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans		
Amount arising during the period	1,868	3,753
Before tax effect adjustment	1,868	3,753
Tax effect	(382)	(994)
After tax effect adjustment	1,486	2,758
Net change in financial assets measured at fair value through other comprehensive income		
Amount arising during the period	(216)	69
Before tax effect adjustment	(216)	69
Tax effect	57	(21)
After tax effect adjustment	(159)	47
Share of other comprehensive income of investments accounted for using equity method		
Amount arising during the period	18	86
Items that may be reclassified to profit or loss		
Cash flow hedges		
Amount arising during the period	(45)	(21)
Reclassification adjustments	(1)	99
Before tax effect adjustment	(46)	77
Tax effect	14	17
After tax effect adjustment	(31)	94
Exchange differences on translation of foreign operations		
Amount arising during the period	(1,676)	6,602
Total other comprehensive income	(363)	9,591

35. Financial instruments

(1) Capital management

The Group manages its capital with the aim of maximizing its corporate value through its sustainable growth. The key indicators used by the Group in capital management are return on invested capital (ROIC), return on equity (ROE), and debt−to−equity ratio. In addition to these indicators, the Group also uses equity attributable to owners of parent and its level as management indicators.

	As of December 31, 2020	As of December 31, 2021
ROIC (Note 1)	6.4%	10.7%
ROE (Note 2)	8.6%	14.5%
Debt−to−equity ratio	0.34x	0.36x

Notes 1: ROIC = (Profit attributable to owners of parent) / (Invested capital)

Invested capital = Interest−bearing debt (the average of beginning and ending balances) + Equity attributable to owners of parent (the average of beginning and ending balances)

2: ROE = Profit attributable to owners of parent ÷ Equity attributable to owners of parent (the average of beginning and ending balances)

(2) Management of financial risks

The Group is exposed to financial risks (credit risk, liquidity risk, and market risk) that may arise in the course of its business activities. In order to avoid or mitigate such financial risks, we manage risks in accordance with certain policies. In addition, the Group’s policy is to use derivatives to avoid risk, and not for speculative purposes.

(i) Management of credit risk

The Group’s trade receivables are exposed to customer credit risk. In order to mitigate such risk, the Company and its consolidated subsidiaries follow their internal regulations, regularly monitor the conditions of principal counterparties and manage the collection status and balances by entity to early identify and mitigate collectability concerns due to a decline in their financial condition. The Group secures collateral for transactions with some of the counterparties.

The Group manages credit risk so that it is not excessively concentrated on a specific counterparty.

The maximum exposure to credit risks on the balance sheet date is the carrying amount of each financial asset after impairment. The respective amount on each reporting date is as follows.

(Exposure to credit risk)

(Millions of yen)

	Financial assets measured at 12-month expected credit losses	Financial assets measured at an amount equal to lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly	Credit impaired financial assets	Financial assets always measured at an amount equal to lifetime expected credit losses	
As of the transition date (January 1, 2020)	4,568	-	5,544	206,362	216,474
As of December 31, 2020	4,323	-	5,159	200,319	209,802
As of December 31, 2021	5,065	-	4,927	218,668	228,661

The guarantee obligation outstanding is as stated in “40. Contingency” is the Group’s maximum exposure to credit risks.

The changes in the Group’s allowance for doubtful accounts are as follows. In the event of impairment of trade and other receivables, the Group records allowance for doubtful accounts without directly reducing the carrying amount.

(Millions of yen)

Allowance for doubtful accounts	Financial assets measured at 12−month expected credit losses	Financial assets measured at an amount equal to lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly	Credit impaired financial assets	Financial assets always measured at an amount equal to lifetime expected credit losses	
As of the transition date (January 1, 2020)	130	-	5,255	2,266	7,653
Increase during the period	104	-	452	401	958
Decrease during the period (used for intended purpose)	-	-	(93)	(135)	(229)
Decrease during the period (reversal of provisions)	(2)	-	(592)	(112)	(707)
Others	(1)	-	5	(20)	(16)
As of December 31, 2020	231	-	5,027	2,400	7,658
Increase during the period	9	-	280	404	695
Decrease during the period (used for intended purpose)	-	-	(24)	(197)	(222)
Decrease during the period (reversal of provisions)	(2)	-	(389)	(203)	(594)
Others	1	-	32	208	243
As of December 31, 2021	240	-	4,927	2,613	7,780

During the fiscal years ended December 31, 2020 and 2021, there were no significant changes in the total carrying amount of financial assets that could affect the change in allowance for doubtful accounts.

(ii) Management of liquidity risk

The Group manages liquidity risk, which is the risk of default in fulfilling obligations under financial liabilities by cash or other financial assets, by having the Company’s finance division prepare and update cash flow plans based on reports from each department as well as maintaining an adequate scale of liquidity on hand in accordance with the status of its business. In addition, to cover financial risk, we secure alternative liquidity mainly by executing commitment line contracts. To improve funding efficiency in the Group, funds are concentrated to the Company under a cash management system (CMS).

The balances of major financial liabilities as of the transition date and as of December 31, 2020 and 2021 by due date are as shown below. Contractual cash flows are undiscounted cash flows including interest expenses.

(Millions of yen)

As of the transition date (January 1, 2020)	Carrying amount	Total contractual cash flows	Due within one year	Due after one year through five years	Due after five years
Non−derivative financial liabilities					
Trade and other payables	137,843	137,843	137,843	−	−
Bonds payable and borrowings	77,936	78,243	37,999	40,243	−
Lease liabilities	26,060	26,868	5,740	13,322	7,805
Others	313	313	78	234	−
Total	242,154	243,268	181,662	53,800	7,805
Derivative financial liabilities					
Derivatives	7	7	7	−	−
Total	7	7	7	−	−

(Millions of yen)

Fiscal year ended December 31, 2020	Carrying amount	Total contractual cash flows	Due within one year	Due after one year through five years	Due after five years
Non−derivative financial liabilities					
Trade and other payables	142,701	142,701	142,701	−	−
Bonds payable and borrowings	74,723	74,967	39,431	35,536	−
Lease liabilities	23,627	25,431	6,640	12,852	5,938
Others	266	266	84	182	−
Total	241,318	243,366	188,857	48,571	5,938
Derivative financial liabilities					
Derivatives	44	44	44	−	−
Total	44	44	44	−	−

(Millions of yen)

Fiscal year ended December 31, 2021	Carrying amount	Total contractual cash flows	Due within one year	Due after one year through five years	Due after five years
Non−derivative financial liabilities					
Trade and other payables	162,558	162,558	162,558	−	−
Bonds payable and borrowings	90,304	90,607	63,579	27,027	−
Lease liabilities	21,741	23,195	6,416	12,280	4,498
Others	221	221	98	123	−
Total	274,826	276,582	232,653	39,431	4,498
Derivative financial liabilities					
Derivatives	0	0	0	−	−
Total	0	0	0	−	−

The line of credit held by the Group is as follows:

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Lines of credit	50,000	85,000	85,000
Used	–	–	–
Unused balance	50,000	85,000	85,000

(iii) Management of credit risk

i) Foreign exchange risk

The Group operates business globally, and the resulting trade receivables and payables denominated in foreign currencies are exposed to foreign exchange risk. The Group principally enters into derivative transactions, such as forward exchange contracts, to hedge the net position of trade receivables and payables denominated in foreign currencies.

The Group, including its consolidated subsidiaries, engages in and manages derivative transactions in accordance with its internal rules on management of financial instruments.

(Exposure to foreign exchange risk)

The Group's exposure to foreign exchange risks (net amount) is as follows: The amounts for which foreign exchange risks are hedged using derivatives are excluded.

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
USD	336	1,398
EUR	3,173	2,816
CNY	4,198	3,974

(Sensitivity analysis of foreign exchange risk)

Regarding foreign currency denominated financial instruments held by the Group as of December 31, 2020 and 2021, the impact of a 10% appreciation in the Japanese yen on profit in the consolidated statement of profit or loss is as follows.

These amounts do not reflect the impact from the translation into Japanese yen of functional currency denominated financial instruments, or assets and liabilities and revenue and expenses of foreign operations. This analysis assumes that all the other variables are constant.

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
USD	(31)	(107)
EUR	(250)	(213)
CNY	(325)	(281)

ii) Interest−rate risk

The Group’s interest−bearing debts that have floating interest rates are exposed to interest−rate risk. To mitigate the interest−rate risk, the Group balances the fixed and floating interest rates of borrowings appropriately and uses derivatives such as interest−rate swaps as necessary.

(Exposure to interest−rate risk)

The Group’s exposure to interest−rate risk is as shown below. The amounts for which interest−rate risks are hedged using derivatives are excluded.

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Borrowings with variable interest rates	19,837	45,664

(Sensitivity analysis of interest−rate fluctuation risk)

Regarding financial instruments held by the Group as of December 31, 2020 and 2021, the impact of a 1% increase in interest rate on profit in the consolidated statement of profit or loss is as shown below.

In the sensitivity analysis, the year−end net balance of financial instruments that is exposed to interest−rate fluctuations is multiplied by 1% to calculate the impact. Financial instruments whose interest rates are virtually fixed through interest swap contracts are excluded. This analysis assumes that all the other variables are constant.

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Profit after tax	(149)	(334)

iii) Stock price fluctuation risk

Equity instruments held by the Group are principally shares in business partners and are exposed to market price fluctuation risk. For equity instruments, the Group regularly confirms the market prices and the financial condition of the issuers (counterparties). In addition, for securities other than those held to maturity, the Group constantly reviews the rationale of holding them based on the relationship with the counterparty.

The description of sensitivity analysis for the fiscal year ended December 31, 2020 is omitted as the impact of stock price fluctuations on the Group was minimal. There was no applicable matter for the fiscal year ended December 31, 2021.

(3) Fair value of financial instruments

(i) Carrying amount and fair value of financial instruments

(Millions of yen)

	As of the transition date (January 1, 2020)		As of December 31, 2020		As of December 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost						
Cash and cash equivalents	95,256	95,256	120,544	120,544	136,488	136,488
Trade and other receivables	140,881	140,502	122,343	122,307	130,121	130,092
Other financial assets	6,067	5,847	5,754	5,540	6,873	6,632
Financial assets measured at fair value through other comprehensive income						
Other financial assets	6,258	6,258	4,131	4,131	2,161	2,161
Financial assets measured at fair value through profit or loss						
Other financial assets (membership rights)	446	446	448	448	246	246
Other financial assets (investment in investment limited partnerships)	–	–	119	119	227	227
Other financial assets (derivatives)	1	1	–	–	41	41
Total	248,911	248,312	253,340	253,091	276,160	275,890
Financial liabilities measured at amortized cost						
Trade and other payables	137,843	137,843	142,701	142,701	162,558	162,558
Bonds payable and borrowings	77,936	77,490	74,723	74,199	90,304	89,934
Other financial liabilities	313	310	266	264	221	219
Financial liabilities measured at fair value through profit or loss						
Other financial liabilities (derivatives)	7	7	44	44	0	0
Total	216,100	215,651	217,735	217,209	253,084	252,713

Lease liabilities are not included in the table above as the disclosure of their fair values is not required under IFRS 7 "Financial Instruments: Disclosures."

(ii) Classification of financial instruments according to fair value hierarchy

Financial instruments measured at fair value are classified into one of the following three levels based on the observability of inputs used in the valuation.

Level 1: Fair values measured at quoted prices in active markets for identical assets and liabilities

Level 2: Fair values measured using inputs other than those included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measured using inputs not based on observable market data for the assets or liabilities.

Reclassifications among the levels of the fair value hierarchy are recognized at the end of each fiscal year. There were no reclassifications among Levels 1, 2, and 3 during the fiscal years ended December 31, 2020 and 2021.

(iii) Financial instruments measured at amortized cost

Methods of measuring major financial instruments at amortized cost are as follows:

i) Cash and cash equivalents

Because these items are settled within short periods, their carrying amounts approximate their fair values.

ii) Trade receivables

Trade receivables are categorized into certain periods and discounted per item taking into account the period to maturity and credit risk.

iii) Other receivables, and trade and other payables

Because these items are settled within short periods, their carrying amounts approximate their fair values.

iv) Other financial assets and other financial liabilities

The fair values of non−current items are calculated by estimating their future cash flows and discounting them to their present value using a discount rate that takes into account credit risk. Because current items are settled within short periods, their carrying amounts approximate their fair values.

v) Bonds and borrowings

The fair values of bonds and long−term borrowings with a contract term of over one year are calculated based on the present value which is the total amount of principal and interest discounted at an assumed interest rate for a similar new borrowing.

For the fair value hierarchy of financial instruments measured at amortized cost, bonds and borrowings are classified as Level 2 and other financial assets and other financial liabilities are classified primarily as Level 3. The fair values relating to the financial instruments classified as Level 3 are measured in accordance with relevant internal rules. In measuring fair values, valuation techniques and inputs that most appropriately reflect the nature, characteristics, and risks of the financial instruments to be measured are adopted.

(iv) Financial instruments measured at fair value

The methods for measuring major financial instruments at fair value are as follows:

i) Shares

Shares are included in other financial assets and are classified as equity instruments measured at fair value through other comprehensive income. As for shares, those classified as Level 1 are listed shares traded in active markets and are valued at the quoted prices on the securities exchange. Shares classified as Level 2 are unlisted shares and are valued using observable market data. Those classified as Level 3 are unlisted shares measured mainly using the valuation model based on net assets (a method to measure corporate value based on the net assets of the issuer adjusted as necessary arising from market value evaluation) or using fair values based on recently obtained appraisal reports by external appraisers (use of transaction approach and other methods).

ii) Membership rights

Membership rights are included in other financial assets and are classified as financial assets and financial liabilities measured at fair value through profit or loss. Their fair values are mainly based on quoted market prices.

iii) Investment limited partnerships

Investments in investment limited partnerships are included in other financial assets and are calculated based on the amount equivalent to the interests in partnership assets.

iv) Derivative assets and liabilities

Derivative assets and derivative liabilities are included in other financial assets and other financial liabilities, respectively, and are classified as financial assets and financial liabilities measured at fair value through profit or loss. Derivatives are mainly transactions related to forward exchange contracts and interest rate swaps, and their fair values are calculated based on observable market data presented by counterparty financial institutions.

Fair value hierarchy of financial instruments measured at fair value is as follows:

As of the transition date (January 1, 2020)

(Millions of yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through other comprehensive income				
Other financial assets (shares)	2,190	2,000	2,068	6,258
Financial assets measured at fair value through profit or loss				
Other financial assets (membership rights)	–	446	–	446
Other financial assets (investment in investment limited partnerships)	–	–	–	–
Derivative assets	–	1	–	1
Total	2,190	2,447	2,068	6,705
Financial liabilities				
Financial assets measured at fair value through profit or loss				
Derivative liabilities	–	7	–	7
Total	–	7	–	7

As of December 31, 2020

(Millions of yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through other comprehensive income				
Other financial assets (shares)	23	2,000	2,107	4,131
Financial assets measured at fair value through profit or loss				
Other financial assets (membership rights)	–	448	–	448
Other financial assets (investment in investment limited partnerships)	–	–	119	119
Derivative assets	–	–	–	–
Total	23	2,448	2,227	4,699
Financial liabilities				
Financial assets measured at fair value through profit or loss				
Derivative liabilities	–	44	–	44
Total	–	44	–	44

As of December 31, 2021

(Millions of yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through other comprehensive income				
Other financial assets (shares)	−	−	2,161	2,161
Financial assets measured at fair value through profit or loss				
Other financial assets (membership rights)	−	246	−	246
Other financial assets (investment in investment limited partnerships)	−	−	227	227
Derivative assets	−	41	−	41
Total	−	287	2,388	2,676
Financial liabilities				
Financial assets measured at fair value through profit or loss				
Derivative liabilities	−	0	−	0
Total	−	0	−	0

The breakdown of changes in the value of financial instruments classified as Level 3 under the fair value hierarchy is as follows:

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Balance at beginning of period	2,068	2,227
Gain or loss	(0)	16
Profit or loss (Note 1)	(5)	(16)
Other comprehensive income (Note 2)	4	33
Purchase	175	149
Sale	(4)	(5)
Others	(10)	−
Exchange differences on translation of foreign operations	−	0
Balance at end of period	2,227	2,388

Notes: 1. Gain or loss included in profit or loss is related to financial assets measured at fair value through profit or loss and is recognized in “finance income” or “finance costs” in the consolidated statement of profit or loss.

2. Gain or loss included in other comprehensive income is related to financial assets measured at fair value through other comprehensive income and is recognized in “net change in financial assets measured at fair value through other comprehensive income” in the consolidated statement of comprehensive income.

Financial instruments classified as Level 3 consist mainly of unlisted shares. The fair values relating to the financial instruments classified as Level 3 are measured in accordance with relevant internal rules. In measuring fair values, valuation techniques and inputs that most appropriately reflect the nature, characteristics, and risks of the financial instruments to be measured are adopted. The fair values of unlisted shares, etc. are measured in accordance with the Group’s accounting policy, etc. by the Group’s departments in charge. The measured fair values are reported to superiors along with reasonable grounds for changes in the fair values and also to the management as necessary.

As for financial instruments classified as Level 3, changes in fair values that occur when unobservable inputs are changed to reasonably possible alternative assumptions are not material.

(4) Equity instruments measured at fair value through other comprehensive income

Equity instruments such as shares are held mainly for the purpose of maintaining and strengthening relations with the issuers over the medium to long term and are designated as equity instruments measured at fair value through other comprehensive income. Major investee of equity instruments and their fair values are as follows:

As of the transition date (January 1, 2020) (Millions of yen)

Investee	Fair value
Kowa Company, Ltd.	2,000
Mitsubishi UFJ Financial Group, Inc.	1,428
Mizuho Financial Group, Inc.	736
Spiber Inc.	999
Osaka Vacuum, Ltd.	299
Japan Nuclear Fuel Limited	181
Others	612
Total	6,258

As of December 31, 2020 (Millions of yen)

Investee	Fair value
Kowa Company, Ltd.	2,000
Spiber Inc.	999
Osaka Vacuum, Ltd.	303
Japan Nuclear Fuel Limited	182
Ridge−i Inc.	99
Trans−Tokyo Bay Highway Corporation	80
Others	465
Total	4,131

As of December 31, 2021 (Millions of yen)

Investee	Fair value
Spiber Inc.	1,071
Osaka Vacuum, Ltd.	297
Japan Nuclear Fuel Limited	184
Ridge−i Inc.	99
Trans−Tokyo Bay Highway Corporation	80
TOKYO CITY−DEVELOPMENT CO., LTD.	61
Others	366
Total	2,161

Equity instruments are sold as needed based on the review of their fair values (e.g. market prices) and business necessity. Cumulative gains or losses recognized during the period are reclassified from other components of equity to retained earnings through their sale, etc. The sum of fair values of equity instruments as of the sale during the period as well as the sum of cumulative gains or losses from the sale are as follows:

(Millions of yen)

Fiscal year ended December 31, 2020		Fiscal year ended December 31, 2021	
Fair value	Cumulative gains or losses	Fair value	Cumulative gains or losses
1,950	(150)	2,061	(1,024)

When the Group disposes of its investments or when fair values of its investments significantly decline, cumulative gains or losses (net of tax) in the financial assets measured at fair value through other comprehensive income, which were recognized in other components of equity, are reclassified from other components of equity to retained earnings. Such amounts during the fiscal years ended December 31, 2020 and 2021 were ¥(113) million and ¥(795) million, respectively.

Dividend income recognized from equity instruments is as follows:

(Millions of yen)

Fiscal year ended December 31, 2020		Fiscal year ended December 31, 2021	
Equity instruments derecognized during the period	Equity instruments held as of the end of the period	Equity instruments derecognized during the period	Equity instruments held as of the end of the period
16	24	18	3

(v) Derivatives and hedge accounting

Hedge accounting adopted by the Group in managing risks is described in “(2) Management of financial risks.”

(Cash flow hedges)

Cash flow hedges refer to hedges against future risks of fluctuations in cash flows. Changes in the fair values of derivative transactions designated as cash flow hedges are recognized in other comprehensive income. In the event hedged transactions affect profit or loss, the amount recognized in other components of equity is reclassified to profit or loss.

Derivatives designated as cash flow hedges include forward exchange contracts aimed at hedging foreign exchange fluctuation risks of liabilities denominated in foreign currencies.

In applying the hedge accounting, to confirm an economic relationship in which changes in the cash flows of the hedged item attributable to the hedged risk are offset by the hedging instrument, the Group, in principle, confirms an economic relationship between the hedged item and the hedging instrument through a qualitative assessment as to whether the critical terms of the hedged item and the hedging instrument are consistent and a quantitative assessment as to whether changes in the value of the hedging instrument offset changes in the value of the hedged item when such changes arise from identical risks. Since the Company uses highly effective hedges, it is generally assumed that an ineffective portion of hedges will not occur.

An appropriate hedge ratio, basically 1:1, based on the quantities of hedged items and hedging instruments is set at the commencement of a hedging relationship.

The fair values of hedging instruments as of the transition date and as of December 31, 2020 and 2021 are as follows: On the consolidated statement of financial position, the fair values of assets relating to hedging instruments are included in other financial assets and the fair values of liabilities relating to hedging instruments are included in other financial liabilities.

(Millions of yen)

As of the transition date (January 1, 2020)	Notional principal	Average rate	Due within one year	Due after one year	Assets	Liabilities
Forward exchange contracts						
EUR	509	USD1.12 /EUR	509	–	–	0
JPY	1,829	¥107.19 /USD	1,829	–	1	–

(Millions of yen)

As of December 31, 2020	Notional principal	Average rate	Due within one year	Due after one year	Assets	Liabilities
Forward exchange contracts						
EUR	305	USD1.14 /JPY	305	–	–	20
JPY	578	¥106.8 /USD	578	–	–	20
GBP	39	USD1.23 /GBP	39	–	–	4

(Millions of yen)

As of December 31, 2021	Notional principal	Average rate	Due within one year	Due after one year	Assets	Liabilities
Forward exchange contracts						
EUR	722	USD1.18 /JPY	722	–	28	–
JPY	157	¥112.27 /USD	157	–	4	–
GBP	11	USD1.38 /GBP	11	–	0	–

The Group’s hedging activities are designed to cover the entire hedged items and, therefore, do not include any hedging transaction that hedges only part of the risk components.

As the amount of the ineffective portion of hedges recognized in profit or loss is not material, descriptions about changes in the fair value of a hedging instrument, used as a basis for identifying the ineffective hedge portion, are omitted.

Other than the above, the fair values of derivative assets and liabilities not designated as hedging instruments are as follows:

(Millions of yen)

	As of the transition date (January 1, 2020)		As of December 31, 2020		As of December 31, 2021	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Forward exchange contracts	–	7	–	–	0	0
Non-deliverable forward (NDF) contracts	–	–	–	–	8	–
Interest rate swap contracts	–	–	–	–	–	–

Cash flow hedges as of the transition date and as of December 31, 2020 and 2021 are as follows. There are no cash flow hedges arising from hedging relationships for which hedge accounting had been discontinued.

(Millions of yen)

Type of risks	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Foreign exchange risk	(24)	(56)	38

As the amount of the ineffective portion of hedges recognized in profit or loss is not material, descriptions about changes in the fair value of a hedging instrument, used as a basis for identifying the ineffective hedge portion, are omitted.

The effects of the hedging instruments designated as cash flow hedges on the consolidated statement of profit or loss and the consolidated statement of comprehensive income in the fiscal years ended December 31, 2020 and 2021 are as follows:

The amount of the ineffective portion of hedges recognized in profit or loss during each fiscal year was not material.

(Millions of yen)

Type of risks	Main components of reclassification adjustments presented on the consolidated statement of profit or loss	Fiscal year ended December 31, 2020		Fiscal year ended December 31, 2021	
		Other comprehensive income	Reclassification adjustments from other comprehensive income to profit or loss	Other comprehensive income	Reclassification adjustments from other comprehensive income to profit or loss
Foreign exchange risk	Finance income and finance costs	23	(55)	121	(26)

36. Changes in liabilities related to financing activities

The changes in liabilities related to financing activities are as follows.

(Millions of yen)

	Short−term borrowings	Long−term borrowings	Bonds payable	Lease liabilities	Total
As of the transition date (January 1, 2020)	32,479	35,456	10,000	26,060	103,997
Changes involving cash flows	2,331	(13,988)	10,000	(5,728)	(7,384)
Changes that do not involve cash flows					
New leases	−	−	−	2,988	2,988
Changes due to business combinations	−	−	−	−	−
Exchange differences on translation	(1,674)	34	−	(90)	(1,730)
Other changes	(9,785)	9,867	−	397	479
As of December 31, 2020	23,352	31,371	20,000	23,627	98,350
Changes involving cash flows	8,752	(1,170)	−	(5,058)	2,523
Changes that do not involve cash flows					
New leases	−	−	−	2,073	2,073
Changes due to business combinations	658	2,872	−	491	4,022
Exchange differences on translation	3,059	1,474	−	168	4,702
Other changes	25	(90)	−	439	374
As of December 31, 2021	35,847	34,457	20,000	21,741	112,046

37. Related party transactions

(1) Related party transactions

Fiscal year ended December 31, 2020

Not applicable.

Fiscal year ended December 31, 2021

Not applicable.

(2) Compensation for key management personnel

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Basic compensation and short−term performance−linked compensation	823	846
Share−based compensation	140	564
Others	32	40
Total	995	1,451

38. Commitment

Not applicable.

39. Collaterals

Assets pledged as collateral and corresponding liabilities are as follows.

Assets pledged as collateral

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Buildings and structures	3,702	3,302	3,693
Others	453	956	1,003
Total	4,155	4,258	4,696

Liabilities corresponding to the above

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Short−term borrowings	203	104	13
Long−term borrowings	129	15	−
Total	333	120	13

40. Contingency

The Group provides guarantees on loans for employee housing and bank loans of The Ebara Hatakeyama Memorial Foundation (a public interest incorporated foundation). The balance of loan guarantees for each fiscal year is as follows.

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020	As of December 31, 2021
Loans guaranteed to employees for housing	42	33	23
Loans guaranteed to The Ebara Hatakeyama Memorial Foundation (a public interest incorporated foundation)	–	153	900
Total	42	186	923

Loans guaranteed to employees for housing

The Group provides guarantees of bank loans for employee housing. In the event that the debtor is unable to repay the loan that is guaranteed by the Group, the Group is required to bear such amount. Some guaranteed loans are secured by the assets of the debtor.

Loans guaranteed to The Ebara Hatakeyama Memorial Foundation (a public interest incorporated foundation)

The Group provides guarantees of bank loans for The Ebara Hatakeyama Memorial Foundation (a public interest incorporated foundation). In the event that the debtor is unable to repay the loan that is guaranteed by the Group, the Group is required to bear such amount. Some guaranteed loans are secured by the assets of the debtor.

41. Subsequent events

(Cancellation of treasury shares)

At the meeting of the Board of Directors held on May 14, 2021, the Company resolved to cancel its treasury shares in accordance with Article 178 of the Companies Act, and completed it as follows.

(1) Type of shares cancelled

Common shares of the Company

(2) Number of shares cancelled

3,513,400 shares

(3.68% of the total number of issued shares as of the end of December 2021)

(3) Date of cancellation

January 31, 2022

42. First−time adoption

The Group discloses its condensed consolidated financial statements in accordance with IFRS from the fiscal year ended December 31, 2021. The Group’s most recent disclosure of its consolidated financial statements in accordance with Japanese GAAP was for the fiscal year ended December 31, 2020. The date of the transition to IFRS was January 1, 2020.

IFRS 1 “First−time Adoption of International Financial Reporting Standards” (hereinafter “IFRS 1”) stipulates that, in principle, the retrospective application of IFRS is required. However, it provides some voluntary and mandatory exemptions from full retrospective applications. Impact of such transition is adjusted in retained earnings as of the transition date.

(i) Exemptions under IFRS 1

The Company applies voluntary exemptions such as follows:

i) Business combinations

IFRS 1 allows entities to choose not to retrospectively apply IFRS 3 “Business Combinations” (hereinafter “IFRS 3”) for business combinations that occurred before the transition date. The Group chose the option not to apply IFRS 3 retrospectively to business combinations that occurred before the transition date. As a result, the amount of goodwill arising from business combinations before the transition date is not adjusted and remains the same as the carrying amount under the previous GAAP. The goodwill mentioned above has gone through impairment test on the transition date regardless of the presence of indications of impairment.

ii) Exchange differences on translation of foreign operations

IFRS 1 allows entities to deem the cumulative exchange differences on translation of foreign operations to be zero at the transition date. The Group has chosen to deem accumulated exchange differences on translation of foreign operations to be zero at the transition date and recognized it in retained earnings.

iii) Leases as lessee

When a first−time adopter recognizes lease liabilities and right−of−use assets as a lessee, IFRS 1 allows entities to measure all lease liabilities and right−of−use assets at the transition date. The Group measured lease liabilities at the transition date, using the present value of the remaining lease payments discounted by the lessee's incremental borrowing rate at the transition date. The Group measures right−of−use assets by each lease contract at the carrying amount as if IFRS 16 “Leases” (hereinafter “IFRS 16”) had been applied to the contracts from the start date of the contracts, while they are discounted by incremental borrowing rates of the lessee as of the IFRS transition date. For leases with lease terms ending within 12 months from the transition date and leases with underlying assets of low value, lease expenses are either recognized over the lease term under a straight−line or another regular basis.

iv) Designation of financial instruments recognized before the transition date

IFRS 1 allows entities to designate financial assets under IFRS 9 “Financial Instruments” (hereinafter “IFRS 9”) based on the facts and circumstances that existed at the transition date. Based on the circumstances as of the transition date, the Group mainly designated its equity financial instruments recognized before the transition date as financial assets measured at fair value through other comprehensive income.

(ii) Mandatory exemptions of IFRS 1

IFRS 1 prohibits retrospective application of “Estimates,” “Derecognition of financial assets and financial liabilities,” “Non−controlling interests,” “Classification and measurement of financial assets,” etc. The Group has prospectively applied IFRS for these items from the transition date.

(1) Reconciliation of Japanese GAAP to IFRS

Reconciliation disclosures required on the first−time adoption of IFRS are shown below. Items that do not affect retained earnings and comprehensive income are included in "Reclassification," and items that affect retained earnings and comprehensive income are included in "Differences in recognition and measurement" of the reconciliation tables.

(i) Reconciliation of equity as of the IFRS transition date (January 1, 2020)

Under Japanese GAAP, the Group adopted "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018) from January 1, 2020. The "Japanese GAAP" column of the table below reflects the cumulative effect of the application.

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassificati−on	Differences in scope of consolidation	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
Assets							Assets
Current assets							Current assets
Cash and deposits	94,014	(663)	1,904	−	95,256		Cash and cash equivalents
Notes and accounts receivable	194,035	(194,035)	−	−	−		
Electronically recorded monetary claims	9,218	(9,218)	−	−	−		
	−	140,536	493	(149)	140,881		Trade and other receivables
	−	64,617	(48)	63	64,632		Contract assets
Securities	1,097	(1,097)	−	−	−		
Merchandise and finished goods	18,386	(18,386)	−	−	−		
Work in process	51,165	(51,165)	−	−	−		
Raw materials and supplies	32,633	(32,633)	−	−	−		
	−	99,941	357	850	101,150		Inventories
Others	15,932	(15,932)	−	−	−		
	−	596	40	0	637		Income taxes receivable
	−	13,424	197	774	14,396		Other current assets
	−	1,907	873	227	3,007		Other financial assets
Allowance for doubtful accounts	(2,107)	2,107	−	−	−		
Total current assets	414,376	−	3,818	1,767	419,962		Total current assets
Fixed assets							Non−current assets
Property, plant and equipment (net)	124,898	−	589	24,865	150,353	(B)	Property, plant and equipment
Goodwill	774	(774)	−	−	−		
Software	6,496	(6,496)	−	−	−		
Others (Intangible assets)	3,072	(3,072)	−	−	−		
	−	10,343	14	(1,644)	8,714		Goodwill and intangible assets
Investment securities	19,666	(19,666)	−	−	−		
	−	6,975	−	(596)	6,379		Investment accounted for using equity method
Long−term loans receivable	144	(144)	−	−	−		
	−	16,345	(5,641)	(938)	9,765	(A)	Other financial assets
Defined benefit asset	5,017	(5,017)	−	−	−		
Deferred tax assets	11,879	−	40	2,471	14,391		Deferred tax assets
Others (investments and other assets)	10,077	(10,077)	−	−	−		
	−	6,141	41	(285)	5,897		Other non−current assets
Allowance for doubtful accounts	(5,442)	5,442	−	−	−		
Total fixed assets	176,585	−	(4,956)	23,873	195,502		Total non−current assets
Total assets	590,961	−	(1,137)	25,641	615,465		Total assets

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in scope of consolidation	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
Liabilities							Liabilities
Current liabilities							Current liabilities
Notes and accounts payable trade	60,260	(60,260)	−	−	−		
Electronically recorded obligations	59,847	(59,847)	−	−	−		
	−	137,259	128	456	137,843		Trade and other payables
Short−term loans payable	50,965	(50,965)	−	−	−		
	−	39,304	(1,370)	4,871	42,805	(B)	Bonds, borrowings and lease liabiliies
Income taxes payable	3,233	(890)	53	−	2,397		Income taxes payable
Provision for bonuses	6,629	(6,629)	−	−	−		
Provision for directors' bonuses	348	(348)	−	−	−		
Provision for warranties for completed construction	3,336	(3,336)	−	−	−		
Provision for product warranties	3,530	(3,530)	−	−	−		
Provision for construction losses	6,737	(6,737)	−	−	−		
	−	13,603	−	1,368	14,972		Provisions
Others	65,389	(65,389)	−	−	−		
	−	20,766	1	(40)	20,728		Contract liabilities
	−	34,595	98	4,733	39,427	(C)	Other current liabilities
	−	85	−	−	85		Other financial liabilities
Total current liabilities	260,279	(12,320)	(1,088)	11,389	258,259		Total current liabilities
Long−term liabilities							Non−current liabilities
Bonds payable	10,000	(10,000)	−	−	−		
Long−term loans payable	18,340	(18,340)	−	−	−		
	−	41,682	−	19,509	61,191	(B)	Bonds, borrowings and lease liabiliies
Retirement benefit liability	9,362	−	77	2,565	12,004	(D)	Retirement benefit liability
Provision for directors' retirement benefits	107	(107)	−	−	−		
Asset retirement obligations	2,401	(2,401)	−	−	−		
	−	2,401	−	52	2,453		Provisions
Deferred tax liabilities	504	−	1	(459)	47		Deferred tax liabilities
Others	2,612	(2,612)	−	−	−		
	−	1,464	1	1,634	3,099		Other non−current liabilities
	−	234	−	−	234		Other financial liabilities
Total long−term liabilities	43,328	12,320	80	23,302	79,031		Total non−current liabilities
Total liabilities	303,608	−	(1,008)	34,691	337,291		Total liabilities
Net assets							Equity
Common shares	79,155	−	−	−	79,155		Share capital
Capital surplus	74,848	1,132	−	102	76,083		Capital surplus
Retained earnings	137,201	−	(230)	(20,238)	116,732	(F)	Retained earnings
Treasury shares	(174)	−	−	−	(174)		Treasury shares
Accumulated other comprehensive income	(11,852)	−	(3)	11,337	(518)	(A) (D) (E)	Other components of equity
Subscription rights to shares	1,132	(1,132)	−	−	−		
					271,277		Total equity attributable to owners of parent
Non−controlling interests	7,043	−	104	(252)	6,896		Non−controlling interests
Total net assets	287,353	−	(129)	(9,050)	278,173		Total equity
Total liabilities and net assets	590,961	−	(1,137)	25,641	615,465		Total liabilities and equity

(ii) Reconciliation of equity as of December 31, 2020

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
Assets						Assets
Current assets						Current assets
Cash and deposits	121,996	(1,452)	–	120,544		Cash and cash equivalents
Notes and accounts receivable	187,289	(187,289)	–	–		
Electronically recorded monetary claims	11,374	(11,374)	–	–		
	–	122,496	(153)	122,343		Trade and other receivables
	–	76,912	(379)	76,533		Contract assets
Securities	1,035	(1,035)	–	–		
Merchandise and finished goods	20,333	(20,333)	–	–		
Work in process	47,648	(47,648)	–	–		
Raw materials and supplies	34,621	(34,621)	–	–		
	–	100,777	877	101,654		Inventories
Others	16,727	(16,727)	–	–		
	–	232	59	292		Income taxes receivable
	–	15,173	771	15,945		Other current assets
	–	2,501	249	2,750		Other financial assets
Allowance for doubtful accounts	(2,387)	2,387	–	–		
Total current assets	438,637	–	1,424	440,062		Total current assets
Fixed assets						Non–current assets
Tangible fixed assets (net)	136,202	–	22,561	158,763	(B)	Property, plant and equipment
Goodwill	369	(369)	–	–		
Software	9,485	(9,485)	–	–		
Others (Intangible assets)	3,003	(3,003)	–	–		
	–	12,858	(1,407)	11,450		Goodwill and intangible assets
Investment securities	12,766	(12,766)	–	–		
	–	7,695	(730)	6,964		Investment accounted for using equity method
Long–term loans receivable	127	(127)	–	–		
	–	8,638	(935)	7,703	(A)	Other financial assets
Defined benefit asset	5,181	(5,181)	–	–		
Deferred tax assets	10,631	–	2,363	12,994		Deferred tax assets
Others (Investments and other assets)	10,339	(10,339)	–	–		
	–	6,913	(81)	6,832		Other non–current assets
Allowance for doubtful accounts	(5,166)	5,166	–	–		
Total fixed assets	182,940	–	21,768	204,709		Total non–current assets
Total assets	621,578	–	23,193	644,771		Total assets

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
Liabilities						Liabilities
Current liabilities						Current liabilities
Notes and accounts payable trade	60,508	(60,508)	−	−		
Electronically recorded obligations	69,230	(69,230)	−	−		
	−	142,701	−	142,701		Trade and other payables
Short−term loans payable	28,056	(28,056)	−	−		
	−	28,586	4,818	33,404	(B)	Bonds, borrowings and lease liabiliies
Income taxes payable	4,672	(1,052)	−	3,620		Income taxes payable
Advances received	40,056	(40,056)	−	−		
Provision for bonuses	7,685	(7,685)	−	−		
Provision for directors' bonuses	454	(454)	−	−		
Provision for warranties for completed construction	3,793	(3,793)	−	−		
Provision for product warranties	4,089	(4,089)	−	−		
Provision for construction losses	6,096	(6,096)	−	−		
	−	13,979	509	14,489		Provisions
Others	33,541	(33,541)	−	−		
	−	40,056	−	40,056		Contract liabilities
	−	29,157	4,485	33,643	(C)	Other current liabilities
	−	84	−	84		Other financial liabilities
Total current liabilities	258,185	−	9,813	267,998		Total current liabilities
Long−term liabilities						Non−current liabilities
Bonds payable	20,000	(20,000)	−	−		
Long−term loans payable	26,666	(26,666)	−	−		
	−	47,556	17,389	64,946	(B)	Bonds, borrowings and lease liabiliies
Retirement benefit liability	7,704	−	1,790	9,494	(D)	Retirement benefit liability
Provision for directors' retirement benefits	121	(121)	−	−		
Asset retirement obligations	2,264	(2,264)	−	−		
	−	2,264	54	2,319		Provisions
Deferred tax liabilities	24	−	20	45		Deferred tax liabilities
Others	2,141	(2,141)	−	−		
	−	1,190	1,717	2,907		Other non−current liabilities
	−	182	−	182		Other financial liabilities
Total long−term liabilities	58,922	−	20,972	79,895		Total non−current liabilities
Total liabilities	317,108	−	30,786	347,894		Total liabilities
Net assets						Equity
Common shares	79,451	−	−	79,451		Share capital
Capital surplus	75,144	765	77	75,987		Capital surplus
Retained earnings	156,486	−	(19,857)	136,629	(F)	Retained earnings
Treasury shares	(178)	−	−	(178)		Treasury shares
Accumulated other comprehensive income	(14,671)	−	12,346	(2,324)	(A) (D) (E)	Other components of equity
Subscription rights to shares	765	(765)	−	−		
				289,564		Total equity attributable to owners of parent
Non−controlling interests	7,472	−	(159)	7,312		Non−controlling interests
Total net assets	304,470	−	(7,592)	296,877		Total equity
Total liabilities and net assets	621,578	−	23,193	644,771		Total liabilities and equity

(iii) Reconciliation of income and comprehensive income for the fiscal year ended December 31, 2020

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
Net sales	523,727	−	(1,248)	522,478	(H)	Revenue
Cost of sales	379,087	−	(3,054)	376,032	(G) (H)	Cost of sales
Gross profit	144,639	−	1,806	146,446		Gross profit
Selling, general and administrative expenses	106,760	231	1,571	108,563	(G) (H)	Selling, general and administrative expenses
	−	937	(6)	931		Other income
	−	1,524	(277)	1,246		Other expenses
Operating income	37,879	(818)	506	37,566		Operating profit
Non−operating income	2,155	(2,155)	−	−		
Non−operating expenses	3,175	(3,175)	−	−		
Extraordinary income	121	(121)	−	−		
Extraordinary loss	934	(934)	−	−		
	−	459	(77)	382		Finance income
	−	2,585	454	3,040		Finance costs
	−	879	(32)	847		Share of profit (loss) of investments accounted for using equity method
Income before income taxes	36,045	(231)	(58)	35,756		Profit before tax
Income tax expense	9,325	(9,325)	−	−		
Income taxes−deferred	533	(533)	−	−		
	−	9,627	178	9,805		Income tax expense
Profit	26,186	−	(236)	25,950		Profit

(Millions of yen)

Line items under Japanese GAAP	Japanese GAAP	Reclassification	Differences in recognition and measurement	IFRS	Notes	Line items under IFRS
Profit	26,186	−	(236)	25,950		Profit
Other comprehensive income						Other comprehensive income
Net unrealized gains (losses) on investment securities	(48)	−	(110)	(159)		Net change in financial assets measured at fair value through other comprehensive income
Remeasurements of defined benefit plans, net of tax	530	−	955	1,486		Remeasurements of defined benefit plans
Deferred gains (losses) on hedges	(30)	−	(1)	(31)		Cash flow hedges
Translation adjustment	(2,644)	−	968	(1,676)		Exchange differences on translation of foreign operations
Share of other comprehensive income of entities accounted for using the equity method	120	−	(102)	18		Share of other comprehensive income of investments accounted for using equity method
Total other comprehensive income	(2,073)	−	1,709	(363)		Total other comprehensive income, net of tax
Comprehensive income	24,113	−	1,473	25,587		Total
Comprehensive income attributable to:						Comprehensive income attributable to:
Owners of parent	22,373	−	1,430	23,804		Owners of parent
Non−controlling interests	1,740	−	42	1,782		Non−controlling interests

(2) Notes on reconciliation of equity

(Differences in recognition and measurement)

(A) Non−marketable equity financial instruments

Non−marketable equity financial instruments had been measured at acquisition cost under Japanese GAAP. Under IFRS, based on IFRS 9, they are classified as equity financial instruments measured at fair value through other comprehensive income, and measured at fair value regardless of whether they are marketable or not. The variance is recognized through other comprehensive income.

(B) Lease transactions

Under Japanese GAAP, as lessee, the Group classified lease contracts as finance leases or operating leases. For operating leases, the accounting treatment was similar to that of regular rental transactions. Under IFRS, the Group does not make such classification and recognizes right−of−use assets included in "Property, plant and equipment" and "Bonds, borrowings and lease liabiliies" of current and non−current liabilities with regard to all leases except for short term leases and leases with underlying assets of low value.

(C) Unused paid leave

Unused paid leave not recognized under Japanese GAAP is recognized as "Other current liabilities" under IFRS.

(D) Employee benefits

Under Japanese GAAP, on defined benefit plan, service costs, interest costs and expected return were recognized as net profit and loss. The amounts in actuarial gains or losses and prior service costs related to these plans which were not expensed were recorded as accumulated other comprehensive income and then recognized as net profit and loss in the future for a certain period.

On the other hand, under IFRS, for post−employment benefits in the defined benefit plan, current service costs and prior service costs are recognized as net profit and loss. Net interest costs are recognized as net profit and loss calculated by net defined benefit liability (asset) multiplied by discount rate. Remeasurements of net defined benefit liability (asset) are recognized in other comprehensive income, and when incurred, they are immediately transferred from other equity components directly to retained earnings and not through net profit and loss. Remeasurement consists of actuarial gains or losses in defined benefit liabilities and return from plan assets (excluding interest income from plan assets).

(E) Exchange differences on translation of foreign operations

The Group has chosen to apply the exemption for cumulative exchange differences on translation of foreign operations set forth under IFRS 1. The cumulative exchange differences on translation of foreign operations are deemed to be zero as of the transition date, and they are recognized in retained earnings.

(F) Adjustment to retained earnings

The above adjustments' effect on retained earnings are as follows. (( ): Loss)

(Millions of yen)

	As of the transition date (January 1, 2020)	As of December 31, 2020
Employee benefits	(15,926)	(14,701)
Exchange differences on translation of foreign operations	(2,891)	(4,587)
Right−of−use assets, lease liabiliies	(308)	(334)
Property, plant and equipment	(298)	(131)
Investments by using equity method	(251)	(326)
Others	(561)	225
Reconciliation amount of retained earnings	(20,238)	(19,857)

(Reclassification)

To comply with IFRS, the following reclassifications are performed.

- Under Japanese GAAP, short−term investments with maturities within three months from the acquisition date were included in "Securities." Under IFRS, they are presented in "Cash and cash equivalents."
- Under Japanese GAAP, "Notes and accounts receivable−trade," "Electronically recorded monetary claims" and "Allowance for doubtful accounts" in current assets were independently presented, and "Accounts receivable−other" was included in "Others" in current assets. Under IFRS, they are presented as "Trade and other receivables" and "Contract assets."
- "Merchandise and finished goods," "Work in process" and "Raw materials and supplies" presented independently under Japanese GAAP now are lumped into "Inventories."
- "Investments accounted for using the equity method" included in "Investment securities" under Japanese GAAP is presented independently under IFRS.
- "Provision for warranties for completed construction," "Provision for product warranties" and "Provision for construction losses" as current liabilities and "Asset retirement obligations" as long−term liabilities were presented independently under Japanese GAAP. Under IFRS, they are presented as "Provisions" in current liabilities and non−current liabilities.
- "Advances received" presented independently under Japanese GAAP is presented as "Contract liabilities" under IFRS.
- "Other financial assets" and "Other financial liabilities" are presented independently.

(3) Notes on reconciliation of profit and loss and comprehensive income

(Differences in recognition and measurement)

(G) Inventories

Under Japanese GAAP, some subsidiaries included transportation costs to deliver products to customers in the cost of inventories. Under IFRS, all costs except for those incurred in bringing the inventories to their present location or condition are recognized as "Selling, general and administrative expenses" when they are incurred.

(H) Exchange differences on translation of foreign operations

Under Japanese GAAP, revenue and expense of foreign operations were translated by foreign exchange rates as of the financial reporting date. Under IFRS, they are translated by the average rate of the reporting period unless there are significant fluctuations in the exchange rates.

(Reclassification)

To comply with IFRS, the following reclassifications are performed.

Among revenue and expenses presented in "Non−operating income," "Non−operating expenses," "Extraordinary income" and "Extraordinary loss" under Japanese GAAP, finance−related items are presented in "Finance income" and "Finance costs," and the other items are presented in "Other income" and "Other expenses" under IFRS.

(4) Reconciliation on cash flow statements

Under Japanese GAAP, "Payment of operating lease transactions" was in "Cash flows from operating activities." Under IFRS, it is in "Cash flows from financing activities" as "Repayments of lease liabiliies."

(2) Other information

(1) Quarterly results for the fiscal year ended December 31, 2021

(Cumulative period)		First quarter	Second quarter	Third quarter	Full year
Revenue	(Millions of yen)	135,268	274,154	419,926	603,213
Profit before tax	(Millions of yen)	13,081	25,502	37,252	60,302
Profit attributable to owners of parent	(Millions of yen)	8,569	16,789	24,414	43,616
Basic earnings per share	(Yen)	89.85	176.30	257.80	463.44

(Accounting period)		First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share	(Yen)	89.85	86.44	81.43	207.94

Note: In line with the finalization of provisional accounting treatment concerning business combinations, the finalized details of the provisional accounting treatment have been reflected in the relevant figures for the second quarter ended June 30, 2021 and third quarter ended September 30, 2021.

(2) Information after the closing date

Not applicable.

(3) Litigation

(Progress of dispute regarding fire accident at bulky waste treatment facility at the Gifu City Eastern Clean Center)

On October 23, 2015, a fire broke out at the bulky waste treatment facility at the Gifu City Eastern Clean Center, which is located in the Akutami section of Gifu City in Gifu Prefecture, when Ebara Environmental Plant Co., Ltd. (hereinafter “EEP”), the Company’s consolidated subsidiary, was making repairs on the facility. EEP is responsible for the operation and management of a waste incinerating facility that is located adjacent to the bulky waste treatment facility where the fire occurred.

Regarding this incident, while the Company had been discussing with Gifu City the compensation for related damages, a lawsuit against EEP was filed by Gifu City at the Gifu District Court on January 31, 2019 claiming compensation for damages of ¥4,362 million and late charges for such compensation. Afterwards, Gifu City amended its amount of the compensation claim for damages to ¥4,474 million and late charges for such compensation on July 22, 2019 (received on July 25, 2019). On July 17, 2020, the amount of the compensation claim for damages was amended to ¥4,582 million and late charges for such compensation (received on July 20, 2020), and on August 10, 2021, the compensation claim for damages was amended to ¥4,692 million and late charges for such compensation (received on August 25, 2021).

At this time, it is not possible to make a reasonable estimate of the effect of this incident on the Group’s consolidated financial results.

VI. Outline of Stock Administration of the Reporting Company

Fiscal year	From January 1 to December 31
Ordinary General Meeting of Shareholders	March
Record date	December 31
Record date of dividends of surplus	June 30 December 31
Number of shares constituting one unit	100 shares
Buyback or additional sale of shares of less than one unit	
Transfer agent	(Special account) 1−4−1, Marunouchi, Chiyoda−ku, Tokyo Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department
Stock registry administrator	(Special account) 1−4−1, Marunouchi, Chiyoda−ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Forwarding office	–
Share buyback or additional sale fees	Separately specified amount equivalent to share trading brokerage fees
Method of public notice	Electronic public notice is used; provided, however, that when electronic public notice cannot be used due to an accident or any other unavoidable reason, the public notices shall be given in The Nikkei (Nihon Keizai Shimbun) newspaper. https://www.ebara.co.jp/en/
Shareholder benefits	None

Note: The Company's Articles of Incorporation stipulate that shareholders of the Company with shares of less than one unit may not exercise rights other than the right specified in each item of Article 189, Paragraph 2 of the Companies Act; the right to demand buyback of shares with put option held by such shareholders; the right to receive the allotment of shares for subscription and the allotment of subscription rights to shares in accordance with the number of shares they hold; and the right to demand additional sale of shares of less than one unit to make full shares.

VII. Reference Information of the Reporting Company

1. Information about Parent of Reporting Company

The Company has no parent company, etc.

2. Other Reference Information

The Company submitted the following documents during the period from the beginning of the current fiscal year to the date of submission of the annual securities report.

(1) Annual securities report and documents attached thereto, and confirmation letter thereof	Fiscal year (the 156th)	(from January 1, 2020 to December 31, 2020)	March 29, 2021 Submitted to the Director of the Kanto Local Finance Bureau
(2) Internal control report and documents attached thereto			March 29, 2021 Submitted to the Director of the Kanto Local Finance Bureau
(3) Quarterly securities reports and attached documents			
	(1st Quarter of the 157th)	(from January 1, 2021 to December 31, 2021)	May 14, 2021 Submitted to the Director of the Kanto Local Finance Bureau
	(2nd Quarter of the 157th)	(from April 1, 2021 to June 30, 2021)	August 13, 2021 Submitted to the Director of the Kanto Local Finance Bureau
	(3rd Quarter of the 157th)	(from July 1, 2021 to September 30, 2021)	November 12, 2021 Submitted to the Director of the Kanto Local Finance Bureau
(4) Extraordinary report			
Extraordinary report pursuant to Article 24−5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 9−2 (Results of exercise of voting rights at a general meeting of shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs			March 29, 2021 Submitted to the Director of the Kanto Local Finance Bureau
(5) Share buyback reports			
			June 11, 2021 Submitted to the Director of the Kanto Local Finance Bureau
			July 8, 2021 Submitted to the Director of the Kanto Local Finance Bureau
			August 13, 2021 Submitted to the Director of the Kanto Local Finance Bureau
			September 13, 2021 Submitted to the Director

of the Kanto Local Finance Bureau

October 11, 2021
Submitted to the Director of the Kanto Local Finance Bureau

November 11, 2021
Submitted to the Director of the Kanto Local Finance Bureau

December 10, 2021
Submitted to the Director of the Kanto Local Finance Bureau

January 14, 2022
Submitted to the Director of the Kanto Local Finance Bureau

(6) Amendment report for share buyback report

November 19, 2021
Submitted to the Director of the Kanto Local Finance Bureau

7) Securities registration statement and documents attached thereto (Issuance of shares of common stock as restricted stock compensation)

April 13, 2021
Submitted to the Director of the Kanto Local Finance Bureau

(8) Amended shelf registration statement

April 13, 2021
Submitted to the Director of the Kanto Local Finance Bureau

Part 2. Information on Reporting Company's Guarantor

Not applicable.

(For Translation Purpose Only)

Independent Auditor's Report

March 30, 2022

The Board of Directors
EBARA CORPORATION

Ernst & Young ShinNihon LLC
Tokyo, Japan

Designated Engagement Partner Certified Public Accountant	Mineo Kanbayashi
Designated Engagement Partner Certified Public Accountant	Kiomi Horikoshi
Designated Engagement Partner Certified Public Accountant	Takayuki Ando

Opinion

We have audited the accompanying consolidated financial statements of EBARA CORPORATION and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at December 31, 2021, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) pursuant to the provisions of Article 93 of the Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial statements.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Management's estimates of the total cost used for revenue recognition from construction contracts	
Description of Key Audit Matter	Auditor's Response
The Group is engaged in manufacturing, sales, construction, and maintenance for the following segments: - Fluid Machinery & Systems segment, which specializes in rotary machinery, such as pumps and compressors; - Environmental Plant segment, which includes municipal waste incinerators and other environmental plants; and - Precision Machinery segment, which manufactures machinery and equipment for semiconductor manufacturing equipment. As described in Note 3, "Significant Accounting Policies, (13) Revenue," and Note 4, "Significant Accounting Estimates and Related Judgments," for certain construction and maintenance contracts involving pumps, compressors and turbines in the Fluid Machinery & Systems segment and the Environmental Plant segment, the Group recognizes revenue as the related performance obligations are satisfied over a period of time to reflect the transfer of control of the product or services to the customer. The Group estimates the percentage of completion using actual costs incurred to estimated total costs (input method) when the progress of satisfying the corresponding performance obligations	We performed the following audit procedures to evaluate management's estimates of the total cost of construction contracts and maintenance, or similar contracts used for revenue recognition. (1) Assessment of internal control We evaluated the design and operational effectiveness of internal controls overestimates of total costs for the Group as follows. - The execution budget, which is used as the basis for estimating total costs, is prepared by project personnel with relevant field experience and deemed to be reliable with the necessary approvals. The execution budget is prepared and authorized in order to perform cost management for each project. - The system developed by the Group to revise estimates of total costs in a timely manner considering the status of the construction projects, actual costs incurred, or specification changes as instructed by the customer. - The system for the effective and timely monitoring under the project management department, which is responsible for

can be reliably measured. Revenue recognition for such contracts and maintenance contracts or similar contracts is determined using estimates of total cost. These contracts include those whose contractual amounts are significant, those with long construction periods, or those with highly customized specifications. Estimating the total cost of highly customized contracts is complex, and it is difficult to obtain objective measurements. In addition, it requires the project control manager, who possesses specialized knowledge and experience with these types of projects, to determine certain assumptions and exercise judgments. For contracts with long construction periods involving projects where the construction period may be subject to contractual changes during the course of the project, construction delays due to bad weather, or fluctuations in unit costs of construction materials and labor or other inputs, making timely and appropriate adjustments to estimated total costs is a complex process. Therefore, such estimated total costs are subject to a high level of uncertainty, and management judgment significantly affects the estimation. As described above, the audit of the estimates of total costs, which serve as a basis for revenue recognition of construction and maintenance contracts, requires consideration of various estimation assumptions depending on the project, and therefore, we identified this as a key audit matter.	profit or loss management and monitoring the percentage of completion of each project from the perspective of reliability of the total costs. (2) Assessing the reasonableness of estimates of total costs Considering the financial materiality of the contract amount, the contract terms and conditions, and the duration of the construction activity, certain projects were selected, and the following procedures were performed. - We evaluated the estimates of total costs by analyzing the contractual documentation, the execution budget, and process control documents to assess, firstly, whether the estimates of total costs are consistent with the contract details; secondly, whether they are calculated appropriately by aggregating the cost elements, and lastly, whether the execution budget excludes any unusual adjustment items. - In the event that total costs differed from normal historical trends over certain threshold amounts, we inquired with project managers whether such differences are the result of actual circumstances affecting the projects. - We inquired with management and the project manager about the status of projects and the determination as to whether or not the total costs of the project should be adjusted and assessed their responses in light of the process chart and

	historical trends related to costs incurred. We also identified significant assumptions used in the calculation of the estimates of total costs, which related to technical specifications, construction schedules and other details, and assessed the management judgments regarding the impact of uncertainty in estimation assumptions. - We also conducted construction site visits, observed the actual manufacturing of products for certain projects, and examined whether the progress of the projects was consistent with the total cost estimates and the estimated percentage of progress. - We assessed the process used to estimate total costs by comparing the original estimates of total costs with the total actual costs incurred or the latest estimates of the total costs.

Valuation of goodwill related to Çiğli Su Teknolojileri A.Ş.	
Description of Key Audit Matter	Auditor’s Response
As described in Note 13, “Impairment of Non-financial Assets, (3) Impairment test on Goodwill,” the Group has recognized goodwill related to Çiğli Su Teknolojileri A.Ş. in the amount of JPY 4,915 million (TRY 542 million) in the consolidated statement of financial position and discloses the assumptions used in the impairment test of goodwill. In performing the impairment test, the Group measures the recoverable amount of a cash-generating unit or groups of cash-generating units, including goodwill, using value in use. The value in use is calculated as the discounted present value of future cash flows, which are based on a five-year business plan approved by management, and after the period covered by the business plan, on perpetual growth rates estimated within the range of expected long-term market growth rates. The key assumptions in estimating value in use are the estimated five-year future cash flows, perpetual growth rate, and discount rate. The business plan is primarily influenced by the sales growth rate and operating margins of products, mainly pumps, in the markets in which Çiğli Su Teknolojileri A.Ş. operates. As described above, testing goodwill for impairment is complex and the above key assumptions in estimating value in use are subject to uncertainty and require management’s judgment, and therefore, we identified this as a key audit matter.	We performed the following audit procedures to evaluate the valuation of Goodwill. (1) Valuation method We engaged valuation experts from our network firms to review the valuation methodology used in the value in use calculations. (2) Five-year future cash flows - We verified the consistency with the five-year future cash flow projections approved by management. - We inquired with management about sales growth and operating margin, which are the basis for future cash flows, and compared them with available external information, such as market forecasts, or historical results. - To assess the effectiveness of management’s estimation process in developing future cash flow plans, we compared the future cash flow plans prepared at the time of acquisition with the actual results obtained in subsequent periods. (3) Perpetual growth rate and discount rate - We engaged valuation experts from our network firms to review the consistency of the input information used to estimate the perpetual growth rate and discount rate with external information, such as expected long-term market growth rates. - We performed our own sensitivity analysis of the perpetual growth rate and discount rate and compared it with the sensitivity analysis performed by management.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by IFRSs, matters related to going concern.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with IFRSs.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.