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Annual Securities Report

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

159th fiscal year
(From January 1, 2023 to December 31, 2023)

EBARA CORPORATION

(E01542)

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Part 1. Company Information

I. Overview of Company

1. Key Performance Indicators

(1) Consolidated Performance Indicators

Fiscal year		International Financial Reporting Standards				
		As of the transition date	156th	157th	158th	159th
Fiscal year-end		January 1, 2020	December 2020	December 2021	December 2022	December 2023
Revenue	(Millions of yen)	–	522,478	603,213	680,870	759,328
Profit before tax	(Millions of yen)	–	35,756	60,302	69,481	84,733
Profit attributable to owners of parent	(Millions of yen)	–	24,236	43,616	50,488	60,283
Comprehensive income attributable to owners of parent	(Millions of yen)	–	23,804	52,529	66,019	68,391
Total equity attributable to owners of parent	(Millions of yen)	271,277	289,564	312,310	359,966	409,875
Total assets	(Millions of yen)	615,465	644,771	719,736	828,049	913,900
Equity attributable to owners of parent per share	(Yen)	2,851.83	3,036.19	3,395.50	3,910.07	4,439.60
Basic earnings per share	(Yen)	–	254.36	463.44	548.61	653.64
Diluted earnings per share	(Yen)	–	253.34	462.09	547.34	652.55
Ratio of equity attributable to owners of parent	(%)	44.1	44.9	43.4	43.5	44.8
Return of equity attributable to owners of parent	(%)	–	8.6	14.5	15.0	15.7
Price-earnings ratio	(Times)	–	13.2	13.8	8.6	12.8
Cash flows from operating activities	(Millions of yen)	–	68,848	72,858	37,070	70,012
Cash flows from investing activities	(Millions of yen)	–	(29,200)	(31,361)	(38,324)	(35,625)
Cash flows from financing activities	(Millions of yen)	–	(14,389)	(29,489)	(23,749)	(4,658)
Cash and cash equivalents at end of period	(Millions of yen)	95,256	120,544	136,488	116,137	148,059
Number of employees	(Persons)	17,303	17,480	18,372	19,095	19,629

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

Notes:
1. Figures for the 157th fiscal year have not undergone audits pursuant to the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.
2. The number of employees shown is the number of workers.
3. The Company has adopted “Accounting Standard for Revenue Recognition” (Accounting Standards Board of Japan (hereinafter “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 Cigli Su Teknolojileri A.S. the parent company of Vansan Makina Sanayi ve Ticaret A.S., a Turkish pump manufacturer, and Vansan Makina Montaj ve Pazarlama A.S.
September 2022	EBARA acquired Hayward Gordon Holdings, L.P., which owns six industrial pump and mixer manufacturers in Canada and the United States.
January 2023	Following the transition to a major market-based organization, EBARA adopted a five-company system consisting of Building Service & Industrial, Energy, Infrastructure, Environmental Solutions, and Precision Machinery.

3. Description of Business

The EBARA Group (the “Group”) consists of EBARA CORPORATION (the “Company”), 113 subsidiaries (all of which are consolidated subsidiaries), three associates and one jointly controlled entity. From January 2023, the Company has changed its three operating segments of Fluid Machinery & Systems, Environmental Plants, and Precision Machinery to the five operating segments of Building Service & Industrial, Energy, Infrastructure, Environmental Solutions, and Precision Machinery.

Centered on the Company, the Group is primarily engaged in manufacturing, sales, construction, maintenance, services, and others in each of the five businesses.

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. Operating segments.”

Additionally, the Company has changed its reportable segments from the fiscal year under review. See “V. Financial Information, 1. Consolidated Financial Statements, (1) Notes to the Consolidated Financial Statements, 5. Operating segments” for details.

Business segment	Major markets	Main products	Functions and division of responsibilities	The Company, its major consolidated subsidiaries, associates and jointly controlled entity
Building Service & Industrial	Building and industry equipment	Standard pumps (surface pumps, submersible pumps, booster pumps), freezer chillers, blowers, and fans	Manufacture, sales, and maintenance	The Company EBARA REFRIGERATION EQUIPMENT & SYSTEMS CO., LTD EBARA FAN & BLOWER CO., LTD. EBARA BOMBAS AMÉRICA DO SUL LTDA. Ebara Pumps Europe S.p.A. EBARA REFRIGERATION EQUIPMENT & SYSTEMS (CHINA) CO., LTD. Ebara Engineering Singapore Pte. Ltd. Vansan Makina Sanayi ve Ticaret A.S. EBARA HG Holdings Inc. Ebara Machinery (China) Co., Ltd.
Energy	Oil and gas Power facility New energy	Custom pumps (boiler feed pumps), compressors and turbines	Manufacture, sales, and maintenance	The Company Elliott Ebara Turbomachinery Corporation EBARA GREAT PUMPS CO., LTD. Elliott Company Elliott Ebara Singapore Pte. Ltd. EBARA MACHINERY ZIBO CO., LTD.
Infrastructure	Water infrastructure	Custom pumps (agricultural pumps, drainage pumps, water and sewerage pumps), fans for tunnels	Manufacture, sales, operation, and maintenance	The Company EBARA DENSAN LTD.

Business segment	Major markets	Main products	Functions and division of responsibilities	The Company, its major consolidated subsidiaries, associates and jointly controlled entity
Environmental Solutions	Solid waste treatment	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 1)
			Operation and maintenance	Ebara Environmental Plant Co., Ltd. Swing Corporation (Note 1)
			Manufacture and sale of chemicals	Swing Corporation (Note 1)
Precision Machinery	Semiconductor manufacturing	Dry vacuum pumps, CMP equipment, plating equipment, exhaust-gas treatment equipment	Manufacture and sales	The Company
			Sales and maintenance	EBARA FIELD TECH. CORPORATION Ebara Technologies Inc. Shanghai Ebara Precision Machinery Co., Ltd. Ebara Precision Machinery Korea Inc. Ebara Precision Machinery Taiwan Incorporated Ebara Precision Machinery Europe GmbH
Others		–	Regional headquarters, etc.	EBARA (CHINA) CO., LTD. (Note 2)

Notes:
1. The company is a jointly controlled entity accounted for using the equity method.
2. EBARA (CHINA) CO., LTD. was established on August 17, 2023. As a result of contribution in kind, etc. of equities in EBARA REFRIGERATION EQUIPMENT & SYSTEMS (CHINA) CO., LTD., Ebara Machinery (China) Co., Ltd., EBARA GREAT PUMPS CO., LTD., and HEFEI EBARA PRECISION MACHINERY CO.,LTD. in December 2023, EBARA (CHINA) CO., LTD. has been added to significant subsidiaries since the fiscal year under review.

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)					
EBARA FAN & BLOWER CO., LTD.	Suzuka-shi, Mie	445	Building Service & Industrial	100.0	・Sells blowers and related equipment to the Company ・Rents buildings of the Company ・Borrows funds from the Company
EBARA REFRIGERATION EQUIPMENT & SYSTEMS CO., LTD.	Ota-ku, Tokyo	450	Building Service & Industrial	100.0	・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
Elliott Ebara Turbomachinery Corporation	Sodegaura-shi, Chiba	450	Energy	100.0 (100.0)	・One officer concurrently serves as an officer of the Company ・Buys pumps from the Company ・Sells compressors, turbines, etc. to the Company ・Rents factories and buildings of the Company ・Lends funds to the Company
EBARA DENSAN LTD.	Ota-ku, Tokyo	450	Infrastructure	100.0	・One officer concurrently serves as an officer of the Company ・Sells electric machinery and apparatus to the Company ・Rents buildings of the Company ・Borrows funds from the Company
Ebara Environmental Plant Co., Ltd.	Ota-ku, Tokyo	5,812	Environmental Solutions	100.0	・One officer concurrently serves as an officer of the Company ・Buys pumps from the Company ・Buys pump parts and components from the Company ・The Company procures part of the electricity used at its factories ・Rents buildings of the Company ・Lends funds to the Company
EBARA FIELD TECH. CORPORATION	Ota-ku, Tokyo	475	Precision Machinery	100.0	・Two officers concurrently serve as an officer of the Company ・Sells component devices and semiconductor manufacturing equipment of the Company and offers after-sales service for such products ・Rents factories and buildings of the Company ・Lends funds to the Company
Ebara 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 REFRIGERATION EQUIPMENT & SYSTEMS (CHINA) CO., LTD.	Shandong, China	1,888	Building Service & Industrial	100.0 (100.0)	
EBARA BOMBAS AMÉRICA DO SUL LTDA.	Sao Paulo, Brazil	Thousands of Brazilian real 99,106	Building Service & Industrial	100.0 (0.01)	・Borrows funds from the Company
Ebara Pumps Europe S.p.A.	Trento, Italy	Thousands of Euro 22,400	Building Service & Industrial	100.0	・Sells pumps to 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 Engineering Singapore Pte. Ltd.	Singapore	Thousands of Singapore dollars 6,625	Building Service & Industrial, Precision Machinery	100.0	・Buys pumps from the Company ・Sells component devices and semiconductor manufacturing equipment of the Company and offers after-sales service for such products ・Borrows funds from the Company
Ebara Machinery (China) Co., Ltd.	Beijing, China	Thousands of U.S. dollars 61,938	Building Service & Industrial	100.0 (97.6)	・Buys pumps from the Company ・Sells pump parts and components to the Company ・Borrows funds from the Company
Vansan Makina Sanayi ve Ticaret A.S.	Izmir, Turkey	Thousands of Turkish lira 5,350	Building Service & Industrial	100.0	・One officer concurrently serves as an officer of the Company ・Borrows funds from the Company
EBARA HG Holdings Inc.	Delaware, U.S.A.	Thousands of Canadian dollars 22,062	Building Service & Industrial	100.0	
EBARA GREAT PUMPS CO., LTD.	Zhejiang, China	Thousands of U.S. dollars 11,000	Energy	51.0 (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
Elliott Company (Note 4)	Pennsylvania, U.S.A.	Thousands of U.S. dollars 1	Energy	100.0 (100.0)	・Two 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	Energy	100.0 (100.0)	
EBARA MACHINERY ZIBO CO., LTD.	Shandong, China	Thousands of U.S. dollars 41,000	Energy	100.0 (100.0)	・Buys pumps from the Company ・Sells pump parts and components to the Company ・Borrows funds from the Company
EBARA QINGDAO CO., LTD.	Shandong, China	3,150	Environmental Solutions	100.0 (100.0)	
Ebara Precision Machinery Europe GmbH	Hessen, Germany	Thousands of Euro 11,145	Precision Machinery	100.0	・Sells component devices and semiconductor manufacturing equipment of the Company and offers after-sales service for such products
Ebara Precision Machinery Korea Inc.	Pyeongtaek, South Korea	Millions of Won 5,410	Precision Machinery	100.0	・One officer concurrently serves as an officer of the Company ・Sells component devices and semiconductor manufacturing equipment of the Company, offers after-sales service for such products and manufactures components
Ebara Precision Machinery Taiwan Incorporated	Taipei, Taiwan	Thousands of New Taiwan dollars 330,000	Precision Machinery	100.0	・One officer concurrently serves as an officer of the Company ・Sells component devices and semiconductor manufacturing equipment of the Company, offers after-sales service for such products and manufactures components
Shanghai Ebara Precision Machinery Co., Ltd.	Shanghai, China	495	Precision Machinery	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

Name	Address	Share capital or investments in capital (Millions of yen)	Business description	Percentage of the Company's voting rights (%)	Description of relationship
Ebara Technologies Inc.	California, U.S.A.	Thousands of U.S. dollars 44,560	Precision Machinery	100.0 (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 (CHINA) CO., LTD. (Note 3)	Beijing, China	Thousands of Chinese yuan 866,000	Other	100.0	・Five officers concurrently serve as an officer of the Company
87 other companies					

Name	Address	Share capital or investments in capital (Millions of yen)	Business description	Percentage of the Company's voting rights (%)	Description of relationship
(A jointly controlled entity accounted for using the equity method)					
Swing Corporation	Minato-ku, Tokyo	5,500	Environmental Solutions	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 that the Company holds indirectly.

3. Recognized as a Specified Subsidiary.

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

Revenue (including inter-company revenue)	90,541 million yen
Profit before tax	6,288 million yen
Profit	3,409 million yen
Total equity	34,763 million yen
Total assets	100,244 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, 2023

Segment	Number of employees
Reportable segments	
Building Service & Industrial	7,490
Energy	3,259
Infrastructure	1,555
Environmental Solutions	2,755
Precision Machinery	3,374
Total of reportable segments	18,433
Corporate departments and others	1,196
Total	19,629

Note: The number of employees shown is the number of workers.

(2) Information about the Reporting Company

As of December 31, 2023

Number of employees	Average age (years old)	Average length of service (years)	Average annual salary (yen)
4,688	43.6	15.8	8,611,499

Segment	Number of employees
Reportable segments	
Building Service & Industrial	1,289
Energy	69
Infrastructure	888
Environmental Solutions	12
Precision Machinery	1,362
Total of reportable segments	3,620
Corporate departments and others	1,068
Total	4,688

Notes: 1. The number of employees shown is the number of workers.
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	3,148	None
Elliott Ebara Turbomachinery Corporation	Ebara Joint Labor Union	214	None
EBARA FAN & BLOWER CO., LTD.	Ebara Fan & Blower Labor Union	190	None
EBARA FIELD TECH. CORPORATION	Ebara Field Tech. Labor Union	144	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.

(4) Ratio of Female Managers, Ratio of Male Employees Taking Childcare Leave, and Gender Wage Gap

Company name	Ratio of female managers (%)	Ratio of male employees taking childcare leave (%)	Gender wage gap of employees (%) (Women's wages as a percentage of men's wages)		
			Regular employees	Permanent employees	Non-permanent employees
Ebara Corporation	7.2	90.8	84.8	85.2	58.1
EBARA REFRIGERATION EQUIPMENT & SYSTEMS CO., LTD.	3.0	77.8	65.9	71.0	66.3
EBARA DENSAN LTD.	3.9	100.0	82.8	79.3	70.4
EBARA FAN & BLOWER CO., LTD.	1.8	100.0	84.4	82.8	93.6
Elliott Ebara Turbomachinery Corporation	8.1	100.0	86.0	88.8	59.8
Ebara Environmental Plant Co., Ltd.	3.8	88.5	86.7	117.6	68.4
EBARA FIELD TECH. CORPORATION	1.1	100.0	77.5	79.8	70.3

Notes:
1. Covers the reporting company and its domestic subsidiaries with at least 101 regular employees, not including employees seconded outside the Company but including employees seconded from outside the Company.
2. The ratio of female managers is calculated as of December 31, 2023 in accordance with the provisions in the Act on the Promotion of Women's Active Engagement in Professional Life (Act No. 64 of 2015). "Manager" refers to a person in a managerial position or above with subordinates working under them, or a person who holds an equivalent position even if they do not have any subordinates.
3. The ratio of male employees taking childcare leave represents the percentage of male employees that have taken childcare leave or have taken leave for the purpose of childcare from January 1, 2023 to December 31, 2023 pursuant to Article 71-4, Item 2 of Ordinance for Enforcement of the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Ordinance of the Ministry of Labor No. 25 of 1991), in accordance with the provisions in the Act on Childcare Leave, Caregiver Leave, and Other Measures for the Welfare of Workers Caring for Children or Other Family Members (Act No. 76 of 1991).
4. The gender wage gap of employees shows women's wages as a percentage of men's wages from January 1, 2023 to December 31, 2023 in accordance with the provisions in the Act on the Promotion of Women's Active Engagement in Professional Life.

<Supplementary information regarding the above figures>

・Ratio of female managers

We have set a target for the ratio of female managers at EBARA Corporation of 8% by 2025 as one of the non-financial targets in the EBARA Group's medium-term management plan, E-Plan 2025. The current figures are based on the fact that the ratio of female workers is low in the first place, and we recognize that in order to increase the ratio of female managers, it is necessary to further promote career support and training from the perspective of diversity, equity, and inclusion (DE&I) in the career development of female workers. In 2023, we revised our promotion examination system (shortening the timeframe to being promoted to a managerial position, enabling nominated examinations), and established a system to help employees take on challenges without being impacted by life events such as childbirth and childcare. Furthermore, we will promote to put systems in place that enable female employees to improve their skills by providing more learning opportunities from an earlier stage and allow them to envision their medium- to long-term careers by providing age-based training, etc.

・Ratio of male employees taking childcare leave

We have set a target for the ratio of male employees taking childcare leave to 100% by 2025 for EBARA Corporation as one of the non-financial targets in the EBARA Group's medium-term management plan, E-Plan 2025. In order to increase this ratio, we will work to raise awareness of our childcare leave system, conduct educational activities, flexibly operate the system, and foster a corporate culture that makes it easier for male employees to take childcare leave.

・Gender wage gap of employees

Permanent employees: We have introduced a role grading system. Accordingly, in principle, there is no wage gap within the same role grade. On the other hand, due to the low ratio of female managers as mentioned above, there is a wage gap between male and female.

Part-time and fixed-term (non-permanent) employees: A high proportion of part-time employees are women while a high proportion of contract employees are men, resulting in a wage gap between male and female.

In terms of initiatives going forward, we will strive to eliminate the gender wage gap by implementing measures to create an environment in which women can play an active role throughout their entire careers without being hindered by life events.

II. Business Overview

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

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

(1) Management Policy

Long-term Vision "E-Vision 2030"

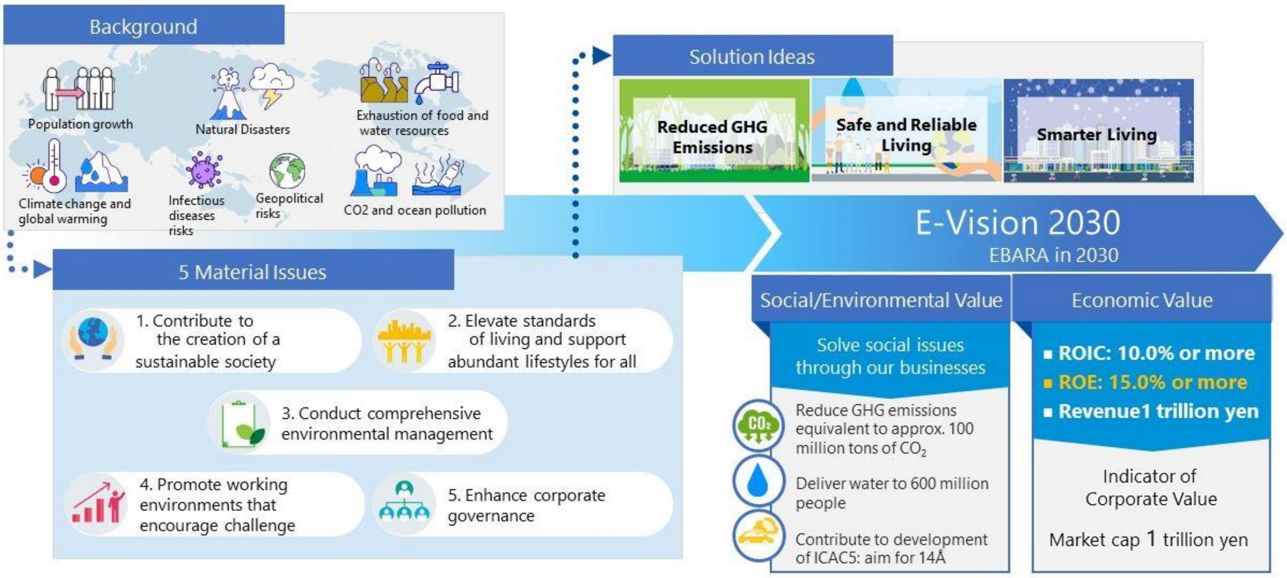
Since it was founded in 1912, the Group has continued to develop its business activities in accordance with its Founding Spirit of "Netsu to Makoto" (Passion and Dedication) and its corporate philosophy of "We contribute to society through high-quality technologies and services relating to water, air,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

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

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

Long-term Vision: E-Vision 2030

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



5 Material Issues (Materiality)

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

(i) Contribute to the Creation of a Sustainable Society

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

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

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

(iii) Conduct Comprehensive Environmental Management

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

(iv) Promote Working Environments That Encourage Challenge

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

(v) Enhance Corporate Governance

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

(2) 2030 Vision

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

Examples of Outcome Targets

(i) Social and environmental value

・Reduce greenhouse gas emissions equivalent to approximately 100 million tons of CO_2

・Deliver water to 600 million people worldwide

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

(ii) Economic value

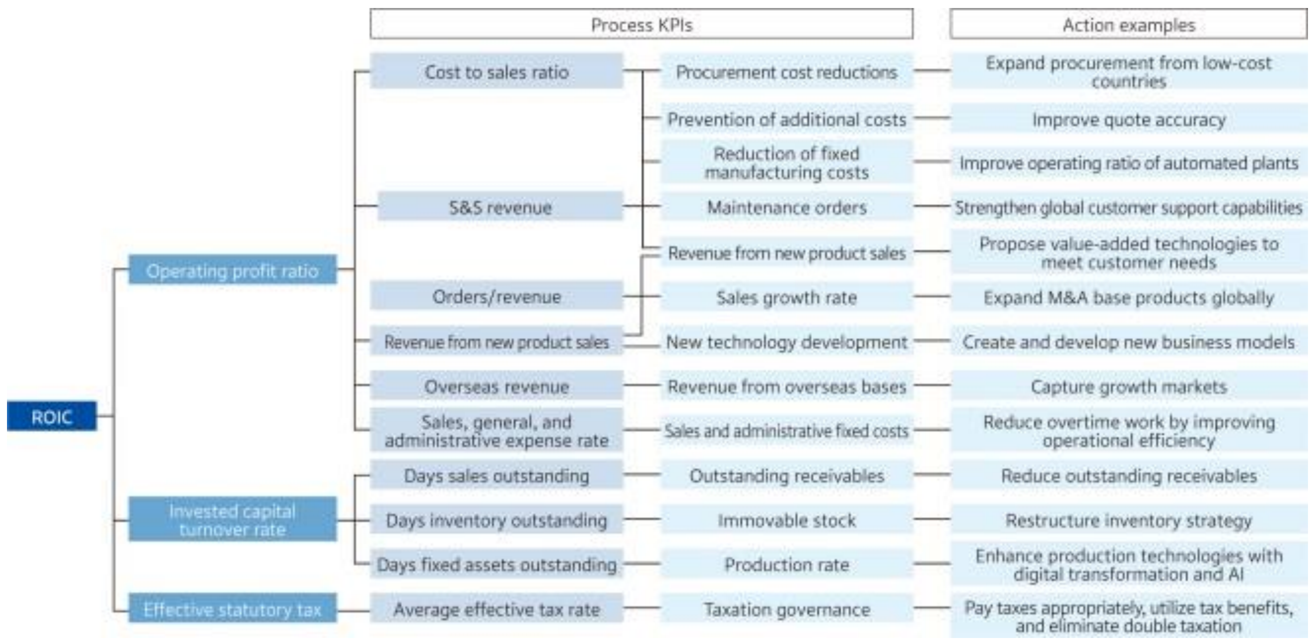
・Return on invested capital (ROIC) of 10.0% or more

・Return on Equity (ROE) of 15.0% or more

・Revenue of 1 trillion yen

ROIC Management

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


Process KPIs
Action examples
ROIC
Operating profit ratio
Invested capital turnover rate
Effective statutory tax
Cost to sales ratio
S&S revenue
Orders/revenue
Revenue from new product sales
Overseas revenue
Sales, general, and administrative expense rate
Days sales outstanding
Days inventory outstanding
Days fixed assets outstanding
Average effective tax rate
Procurement cost reductions
Prevention of additional costs
Reduction of fixed manufacturing costs
Maintenance orders
Revenue from new product sales
Sales growth rate
New technology development
Revenue from overseas bases
Sales and administrative fixed costs
Outstanding receivables
Immovable stock
Production rate
Taxation governance
Expand procurement from low-cost countries
Improve quote accuracy
Improve operating ratio of automated plants
Strengthen global customer support capabilities
Propose value-added technologies to meet customer needs
Expand M&A base products globally
Create and develop new business models
Capture growth markets
Reduce overtime work by improving operational efficiency
Reduce outstanding receivables
Restructure inventory strategy
Enhance production technologies with digital transformation and AI
Pay taxes appropriately, utilize tax benefits, and eliminate double taxation

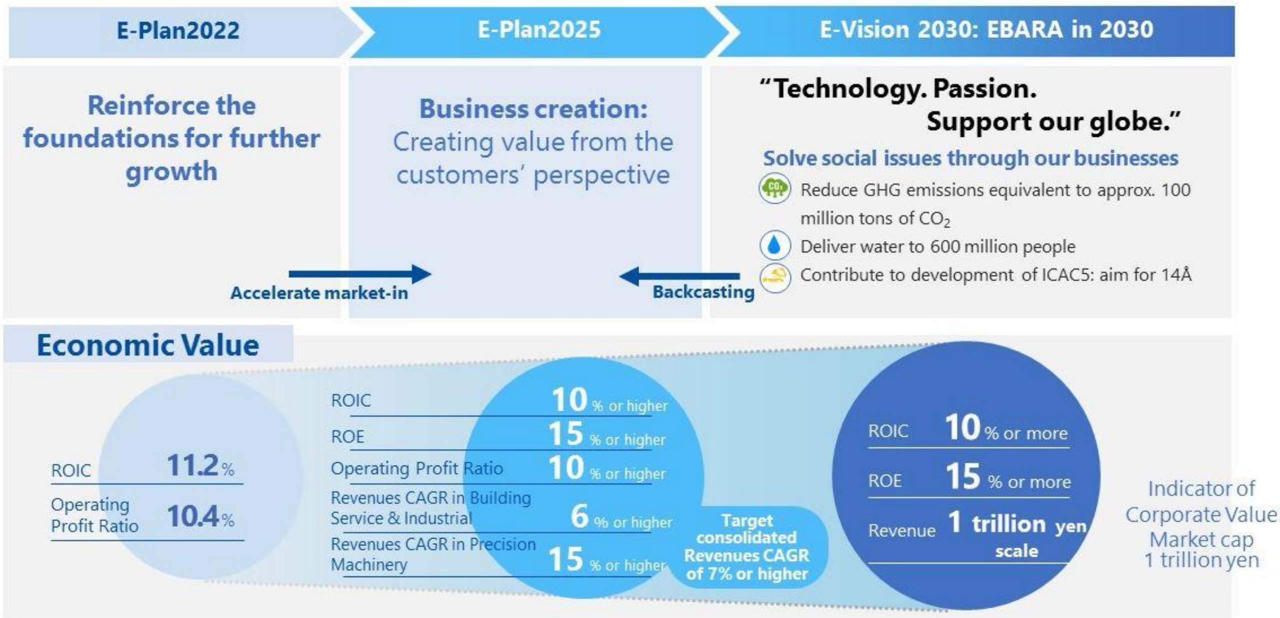
(3) Medium-Term Management Strategies and Target Performance Indicators

Positioning and Directions of E-Plan 2025

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

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

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



Theme of E-Plan 2025 and Key Areas

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

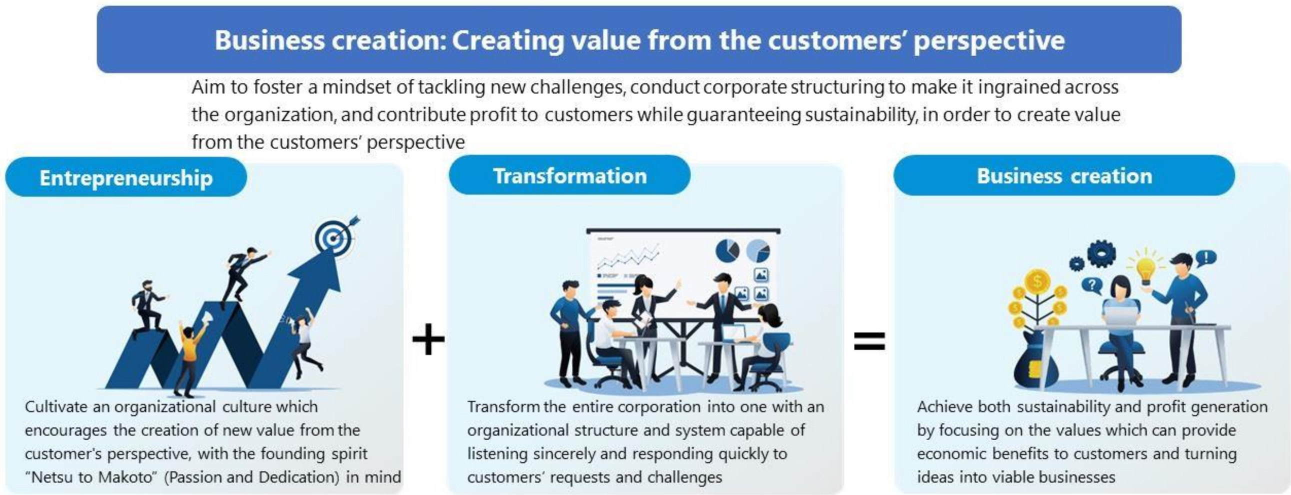
Theme:

Business creation: Creating value from the customer's perspective

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

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

1. Target markets & customer-orientation
2. New value creation
3. Global expansion
4. Advanced and efficient management infrastructure
5. Promotion of ESG-focused management

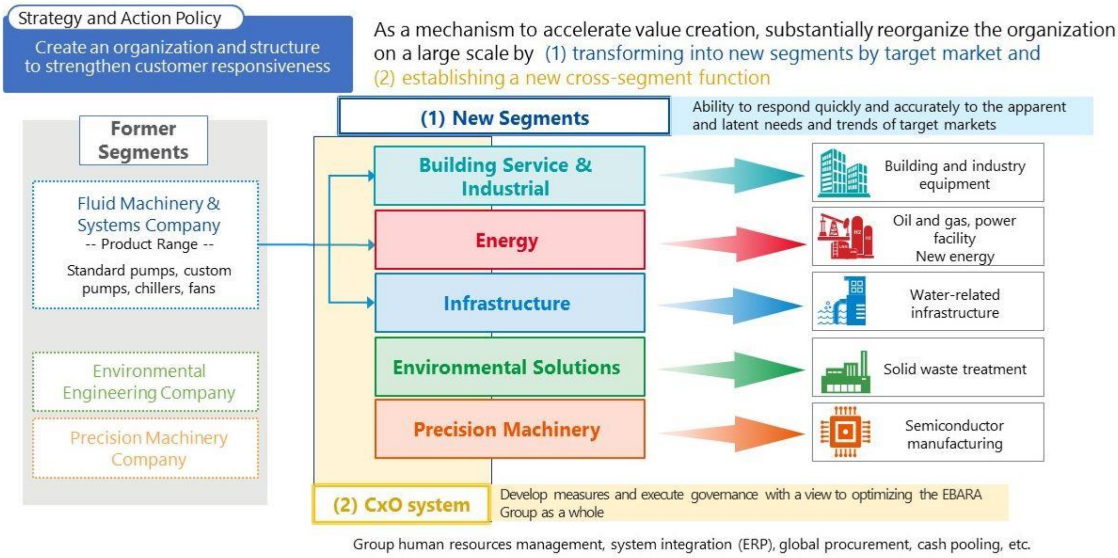


Changes in Business Segments

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

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

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



Target Performance Indicators

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

Financial Targets

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

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

Non-Financial Indicators

Category		FY2023-2025 Target
E: Environment	CDP score (climate change)	Maintain B or above
	Scope 1, 2 GHG emissions	Reduce by 32% compared to FY2018
	Scope 3 / avoided emissions / other (value chain)	Establish a practical measurement method to reduce 100 million tons by 2030
S: Social	Transform into a culture of competition and challenge, and strive to create an environment where diverse employees can comfortably work and perform well - Improve Engagement Survey Score (consolidated)	FY2025: 83 or higher FY2030: 86 or higher
	Aim for global mobility improvement - Percentage of non-Japanese employees (consolidated) in Global Key Position (GKP)	FY2025: 30% or higher FY2030: 50% or higher
	Resolve gender pay gap (1) Percentage of female employees in GKP (consolidated) (2) Percentage of female employees in managerial positions (non-consolidated)	(1) FY2025: 8% or higher FY2030 10% or higher (2) FY2025: 8% or higher
	Cultivate a company culture where employees can work and raise children at the same time regardless of gender - Percentage of male employees taking parental leave (non-consolidated)	FY2025: 100% *Target set in November FY2023
	Promote good performance of employees with special needs - Percentage of employees with special needs (non-consolidated + four group affiliates)	FY2025: 2.6% or higher
	Implement necessary measures based on the results of human rights due diligence for suppliers	
G: Governance	Deepen the performance of the Board of Directors and contributions to G to V: Governance to Value	

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

Item	Description	FY2023-2025 3-year cumulative total
Growth investment	Growth investment based on business portfolio (facilities for increased production, R&D, new business, M&A, etc.)	180.0 to 225.0 billion yen (including R&D expenses of 65.0 billion yen)
Infrastructure investment	Strengthen bases that underpin sustainable growth, etc. (maintenance and renewal equipment, human capital, IT such as ERP, business infrastructure, ESG investments)	50.0 to 80.0 billion yen
Shareholder returns	Dividend policy: Consolidated Dividend Payout Ratio of 35.0% or higher Repurchase of treasury stock: Implement flexibly at appropriate times, carefully considering the level of equity attributable to owners of parent, other investment targets, cash and deposits on hand, stock price trends, business performance trends, and other factors	

(4) Management Environment

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

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

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

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

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

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

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

(i) Building Service & Industrial

i) Basic policy

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

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

ii) Basic strategies

・Strengthen solutions business

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

・Capture growth markets (overseas)

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

・Rebuild global business infrastructure

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

(ii) Energy

i) Basic policy

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

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

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

ii) Basic strategies

・Products (New Apparatus)

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

・S&S (Global Service)

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

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

(iii) Infrastructure

i) Basic policy

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

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

ii) Basic strategies

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

・Deepen the overseas pump market and secure profits
- Strengthen competitiveness by rolling out engineering technologies that are highly regarded in Japan to overseas business locations
- Maintain strategic orders and ensure profitability through front-loading

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

(iv) Environmental Solutions

i) Basic policy

・Strengthen the foundation of core businesses

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

ii) Basic strategies

・Improve price competitiveness of new DBOs

・Prevent occurrence of additional EPC costs

[EPC]
- Reduce construction costs, equipment purchase costs, design management costs, etc.
- Make facilities more compact by standardizing design and revising policies
- Thoroughly utilize the results of design work process improvements, such as standardization and automation of design
- Prevent additional costs during civil engineering and plant construction by improving planning accuracy

[O&M]
- Optimize the maintenance line up for long-term comprehensive projects and reduce costs through competitive quotations

・Further strengthen the earnings base for existing O&M projects
- Expand peripheral O&M services
- Maximize facility operation period

・Strengthen efforts as a provider of decarbonization and resource recycling solutions based on LCA
- Improve the accuracy of chemical recycling technology and establish a scheme for its practical application
- Refine operations, maintenance, etc. through robot development
- Develop and provide new technologies and services

・Promote regional strategies
- Expand the equipment sales and engineering business to Southeast Asia through collaboration with local bases in China

(v) Precision Machinery

i) Basic policy

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

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

ii) Basic strategies

・Strengthen product and solution development capabilities

[Components]

- Provide value and solutions for the entire sub-fab area of semiconductor factories, including contribution to decarbonization of semiconductor manufacturing by customers, new value through AI and DX, and expansion into industrial areas other than semiconductors
- Develop products such as dry vacuum pumps, exhaust gas treatment systems, chillers for semiconductor manufacturing equipment, and exhaust systems for next-generation EUV lithography equipment
- Develop solutions such as data monitoring and failure prediction functions

[CMP and other equipment]

- Build a market-in solution development system
- Reinforce R&D facilities
- Achieve more value creation through the use of data science

・Increase production capacity

[Components]

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

[CMP and other equipment]

- Construction of new building in Kumamoto District

・Rebuild global business infrastructure to support expansion of business scale

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

2. Sustainability Approach and Initiatives

The Group strives to improve its social and environmental values as well as enhance its corporate value over the medium to long term through continuous contribution to solving social issues, including SDGs, through its business activities. To this end, the Group implements sustainability management based on the pillars of tackling environmental issues (E in ESG), connecting with society (S in ESG), and enhancing governance (G in ESG).

(1) Governance

The core of the Group's governance framework related to sustainability is a "supervisory and business execution framework" led by the Board of Directors and the Sustainability Committee and a "compensation system" that links a portion of Executive Officers' compensation to ESG indicators.

(i) Supervisory and Business Execution Framework

The Group implements sustainability management based on the framework shown in the diagram below.

On the business execution side, the Sustainability Committee plays an important role in sustainability management. The committee is chaired by the President and Representative Executive Officer, and its agenda covers environmental, social and governance issues in general. In addition, the contents of discussions at the Human Rights Committee, which determines the Group's policies and various measures related to human rights, and at the Central Safety and Health Committee, which determines the Group's occupational health and safety policy and monitors the status of the entire Group, are also reported to and reviewed by the Sustainability Committee. Meanwhile, sustainability risk management is incorporated into the Group's corporate governance framework, and the Risk Management Panel, which tackles significant risks for the Group, also addresses risks associated with sustainability. See 3. Risk Factors for further details.

On the supervisory side, the Board of Directors receives reports from the Sustainability Committee on initiatives carried out by the business execution side, reviews the details, and provides any necessary advice and guidance.

The roles and functions of each committee are as follows.

i) Board of Directors

Recognizing the need to further strengthen its oversight of the social, environmental, and governance initiatives on the business execution side, the Board of Directors has been holding regular ESG discussions since 2022. Addressing climate change and carrying out human capital initiatives have been raised as key agenda items. The results of discussions are shared with the Sustainability Committee, and Directors also attend Sustainability Committee meetings to monitor the status of sustainability initiatives on the business execution side and supervise them.

ii) Sustainability Committee

The Sustainability Committee has been established as a meeting body for business execution. Its role is to discuss policies, strategies, targets, and KPIs of the business activities that contribute to society, the environment, and the Group's sustainability, and to verify and review outcomes. The Sustainability Committee is chaired by the President and Representative Executive Officer, with Executive Officers serving as members, and external experts on sustainability participating as advisors. Furthermore, Independent Directors and Non-executive Inside Directors are encouraged to attend the meetings of the Sustainability Committee as observers to exhibit supervisory functions, and Independent Directors and Non-executive Inside Directors provide recommendations and the like as necessary. The Sustainability Committee reports details of 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.

iii) Risk Management Panel

The Risk Management Panel ("RMP") identifies significant risks for the Group, including sustainability-related risks, based on the results of risk assessments conducted regularly by the risk management departments of each group company. In the risk assessment process, the risks that should be addressed are identified from potential risks through questionnaires and interviews with business and department managers. The Group then reevaluates its risk response system, clarifies which divisions are in charge, and works to address the risks.

iv) Management Meeting, Management Planning Committee, and Management Issue Action Plan Monitoring Committee

The Management Meeting and the Management Planning Committee hold meetings to deliberate and determine matters aimed at giving shape to the medium-term management plan for each fiscal year and clarifying the annual budgets and action plans of each organization. The Management Issue Action Plan Monitoring Committee has also been established as a meeting body to monitor the progress of management issue action plans. From 2023, in addition to setting targets for achieving budgets as carried out previously, we have also started formulating action plans geared toward achieving our non-financial targets and monitoring progress toward these targets at the Management Issue Action Plan Monitoring Committee.

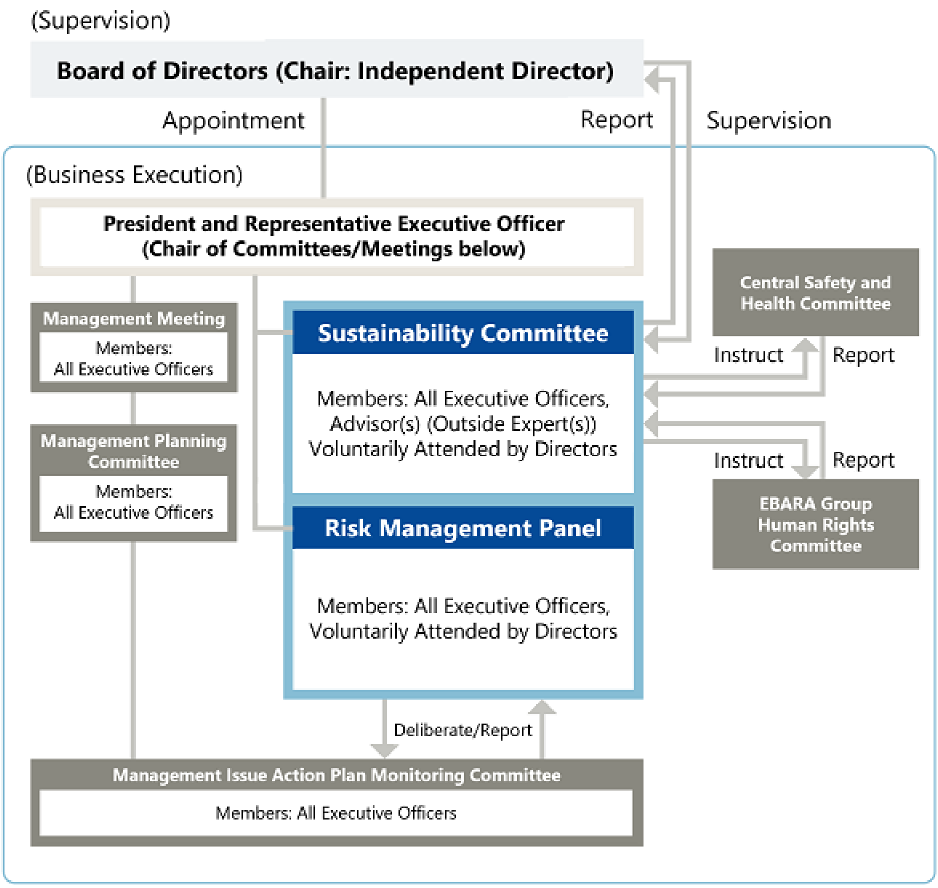
v) Central Safety and Health Committee

Based on the EBARA Group Safety and Health Policy, the Central Safety and Health Committee has been established to create and maintain workplace environments that prioritize the safety and health, including the realization of work-life balance and mental health for all people working in the EBARA Group. The Committee deliberates on and monitors the safety and health plans of each department. The status of these activities is reported to the Sustainability Committee for review.

vi) EBARA Group Human Rights Committee

Based on the EBARA Group Human Rights Policy, we have established the EBARA Group Human Rights Committee for the purpose of putting the Human Rights Policy into practice and continuously improving the human rights management system. The Committee formulates the Group's approach to human rights initiatives and implements measures to continuously improve the Group's human rights management. The Committee also monitors results of human rights due diligence for employees and suppliers and progress on the improvement plan. Details of these activities are reported to the Sustainability Committee for review.

Sustainability Promotion Framework



(ii) Compensation System

In order to practice advanced ESG management toward the realization of a sustainable society through business activities, the Company's Compensation Committee deems it appropriate to reflect the degree of achievement of ESG-related targets in Executive Directors' compensation. Accordingly, after holding numerous discussions while referring to the opinions of outside experts on global compensation for executive officers, the Committee has started linking a portion of Short-term Incentive (STI) to the degree of achievement of ESG indicators from the fiscal year ended December 31, 2022.

The evaluation items are "E" (Environment) based on the evaluation of CDP[*1] and "S" (Society) based on the result of the GES (Global Engagement Survey)[*2], with the evaluation weight set at 10% of the STI. We will continuously review these evaluation indicators going forward.

*1. CDP: ESG evaluation organization that evaluates climate change strategies and initiatives to reduce GHG emissions.

*2. GES: An EBARA survey that has been conducted since 2019 involving employees of both domestic and overseas Group companies to assess the current status of employee engagement in the workplace to achieve the medium- to long-term vision.

Evaluation indicators for Short-term Incentive (STI)

Indicator		Weight
Performance indicators	ROIC	45%
	Consolidated operating profit	
MBO	Set based on KPIs for the relevant business	45%
ESG indicators	"E" (Environment): CDP (climate change)	10%
	"S" (Society): Global Engagement Survey	

(2) Strategies

We have set "5: Advance ESG-Focused Management" as one of the basic policies of the medium-term management plan, E-Plan 2025. In order to contribute to creating a sustainable society, we are implementing advanced ESG management based on the strategies shown in the table below. Strategies and initiatives related to governance (G) are described in "IV. Information about Reporting Company, 4. Corporate Governance."

(i) E (Environment)

For E (Environment), we are working to reduce the impact on the environment through the provision of our products and services in order to achieve carbon neutrality by 2050, while taking efforts to tackle climate change now and in the future.

i) Climate Change-based Scenario Analysis – Response to TCFD Recommendations

The Group recognizes that climate change is a serious challenge the world is facing and has endorsed the TCFD (Task Force on Climate-related Financial Disclosures) in 2019. Through engagement with stakeholders, we recognize the importance of disclosing information about our governance, strategy, risk management, and indicators or targets in response to climate change and implementing such efforts. With the goal of better identifying climate-related risks and opportunities for each business, we analyzed scenarios by major markets. We analyzed the financial impact of our businesses in the oil and gas market, which is evolving toward a decarbonized society; the semiconductor manufacturing market, which is indispensable for improving the efficiency of society as a whole; the building and industrial market where decarbonization is expected through energy management in buildings, condominiums and factories in various industries; the solid waste management market where the recycling of waste and waste heat as energy is expected; and for the water infrastructure market where adaptation to climate change-related disasters such as heavy rain and flooding is expected, under a 4°C scenario and a 1.5°C scenario. Based on the results, we have considered measures to address climate-related risks and opportunities up to 2050. The climate-related scenario analysis was conducted under the responsibility of each company president.

The results of considerations are disclosed based on the TCFD's recommendations. Before making the disclosure, a draft disclosure document is proposed to the Board of Directors for advice. The result of the scenario analysis is reflected in the climate change strategy in the medium-term management plan, E-Plan 2025, which started in 2023. The review cycle of the scenario analysis is the same as the cycle of medium-term management plan formulation.

Our disclosure is introduced in the "Examples of Scenario Analysis Disclosure (Japan and Overseas)" of "Practical Guide for Scenario Analysis in line with the TCFD recommendations 2022" published by the Ministry of the Environment of Japan. In 2023, we were also selected as a company that provides "excellent TCFD disclosure" by GPIF's asset managers entrusted with domestic equity investment. Please visit our website for more information on TCFD-aligned disclosure.

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

ii) Efforts to Avoid Climate Change – Measures Aimed at Achieving Carbon Neutrality

The Group aims to achieve net zero GHG (greenhouse gas) emissions by 2050 through reducing GHG emissions by the Group and in its value chain to achieve both a sustainable society and growth for the Group. To this end, we have strengthened our governance structure for the promotion of carbon neutrality. Specifically, the Energy Management Committee, which has been in charge of rationalizing the usage of fossil energy at a practical level, has been reorganized to cover all energy sources, including renewable and non-fossil energy sources. This Committee will play a central role in promoting concrete measures to achieve CO_2 emission reduction targets, while the Sustainability Committee will steadily promote activities toward carbon neutrality by deliberating on the Group's policies, strategies, targets and KPIs, and monitor results and progress. As a specific initiative, the first step is to implement thorough energy-saving initiatives in internal business activities. With regard to electricity, which accounts for approximately 80% of the Group's energy use, we promote the introduction of low-CO_2 electricity at our main business sites in Japan. We are expanding solar power generation facilities in our business sites in Japan and abroad, and in the Fujisawa District, in addition to the installation of a 1.6 MW-class solar power generation facility on the roof of the new plant building, which was completed in 2020, we are also working on procuring CO_2-free electricity through an off-site PPA model. Furthermore, the Group is working to reduce GHG emissions in society as a whole through the manufacture and sale of exhaust gas treatment equipment that renders exhaust gases with high GHG emission factors harmless, the development, manufacture, and sale of CO_2 injection pumps that contribute to a Carbon Capture, Use and Storage (CCUS) technology, the commercialization of waste plastics chemical recycling technology, and the development of infrastructure equipment for the production and use of hydrogen, ammonia and other next-generation fuels.

(ii) S (Society)

For society (S), we will strengthen human capital management and promote diversity, equity, and inclusion (DE&I). We are also implementing human rights due diligence across our supply chain.

i) Strengthening human capital management

With a view to achieving Materiality 4, "Promote working environments that encourage challenge," in the long-term vision, E-Vision 2030, the EBARA Group will focus on acquiring diverse, creative, and ambitious people unafraid of competition or of taking on challenges from around the world, and will ensure that we provide our people with comfortable, safe, and stimulating working environments that encourage this spirit of challenge and ambition, while conducting fair evaluations that promote the growth of each individual.

Under this policy, we established the CHRO office in 2023 to realize specific initiatives to promote the success of our diverse human resources and to establish a global human resources management infrastructure. We are strengthening human capital management by implementing measures based on the Group-wide human resource strategy, ONE EBARA HR, to address the human resource needs of each business and solve management issues related to human resources. We view human resources as capital, maximize their value, further accelerate the development of the foundations for realizing sustainable global growth, develop human resources who are willing to ‘compete and take on challenges’, and will strengthen optimal allocation of human resources across the Group through improved global mobility.

<Main measures to be implemented during the term of the medium-term management plan, E-Plan 2025>

1. For employees who want to learn and take on challenges, we provide opportunities such as early selection and training of leadership candidates. We will also build systems that enable employees to aim for career change on their own and support them to continue working with high motivation.

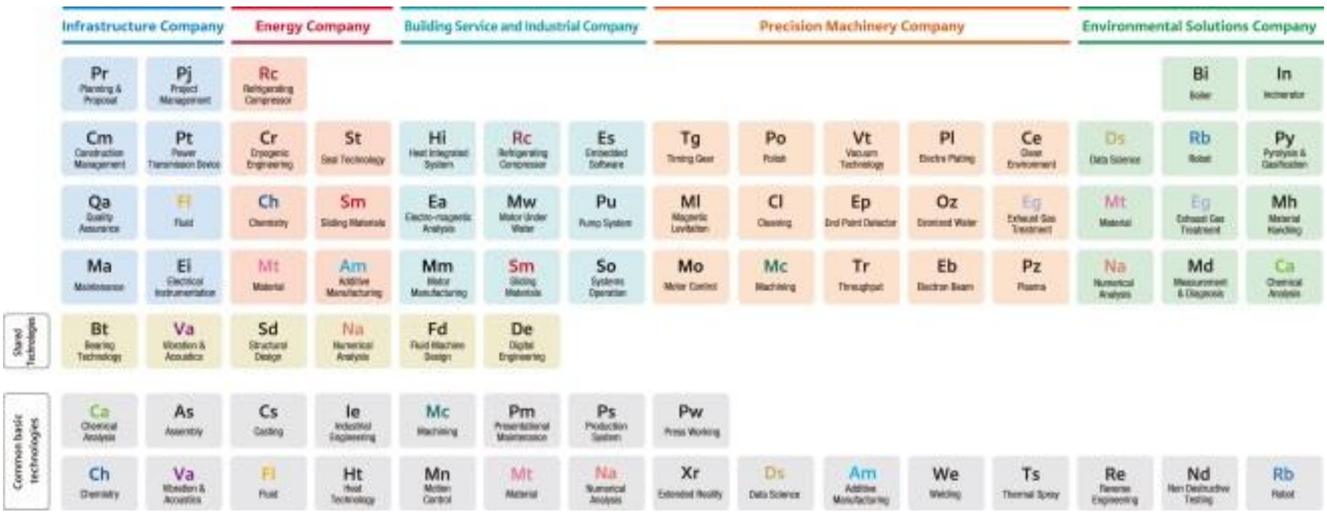
2. To enable local employees of overseas Group companies to play an active role in more important position (Global Key Position: GKP), we will introduce a globally unified role grading system, roll out global human resource development programs Group-wide, and strategically execute domestic and international succession plans.

3. We will utilize our referral hiring and alumni system to attract diverse human resources. In addition, we will further expand the EBARA New Workstyle (ENW) program to provide a more comfortable working environment for diverse human resources.

4. In order to accelerate the visualization of human resources globally, we will build a Global Human Capital Management (HCM) Platform, which will serve as the foundation for our human resources on a global scale and build a system that enables quantitative monitoring of the effects of each human resource measure.

Efforts to Build a Global HCM Platform <Table of Technological Capabilities>

We are continuing our efforts to organize the connections between technology and people through our human resource and technology maps. The Table of Technological Capabilities visualizes these technological capabilities and talents. It is organized into categories that show the technologies for each of the five in-house companies, technologies shared between multiple in-house companies, and important technologies shared across the entire Group. By utilizing the Table of Technological Capabilities, we will promote internal and external collaboration, and establish systems that will enable us to reinforce and rotate talent for key technologies that lack manpower, thereby ensuring that these technologies are passed onto the next generation and developed further.



ii) Diversity, Equity, and Inclusion (DE&I) initiatives

In order to become a stronger company and continue to grow, we are focusing on promoting diversity with the aim of recruiting diverse human resources. In September 2023, we reorganized the Diversity Project into the Diversity, Equity & Inclusion Promotion Department with a view to aggressively promote DE&I. We intend to (i) diversify hiring and training, (ii) promote women's participation in the workplace, and (iii) promote the success of people with disabilities.

In particular, in order to increase the ratio of female managers, we established systems to support women in taking on challenges without being hindered by childbirth, childcare, and other life events, such as revising our promotion examination system (shortening the period before promotion to managerial positions and enabling selected examinations) in 2023. Going forward, we will strive to put systems in place that enable female employees to improve their skills by providing more learning opportunities from an earlier stage, as well as allow them to envision their medium- to long-term careers by providing age-based training, etc.

iii) Respecting human rights

a. Basic Policy on Respecting Human Rights

The EBARA Group has published the EBARA Group Human Rights Policy both internally and externally to put into practice "respect for human rights and diversity," provided for in the EBARA Group CSR Policy in accordance with the provision in the Universal Declaration of Human Rights that states "All human beings are born free and equal in dignity and rights." The EBARA Group Human Rights Policy sets forth three core policies as well as the response policies to be adhered to in order to put these core policies into practice. The EBARA Group Human Rights Policy respects the "Declaration on Fundamental Principles and Rights at Work" published by the International Labour Organization (ILO) and "Guiding Principles on Business and Human Rights" published by the United Nation.

Please see our website for the full version of the EBARA Group Human Rights Policy.

https://www.ebara.co.jp/en/sustainability/social/information/respect.html

b. Human rights relief

At domestic Group companies, the Compliance Consultation Counter accepts and handle complaints, including those related to human rights. Overseas Group companies have also established hotlines to respond to complaints. Consultations from outside the Group are accepted through the inquiry link on the EBARA CORPORATION website. In accordance with the Whistleblower Protection Act revised in June 2022, the Compliance Consultation Counter responds to complaints and consultations regarding human rights in accordance with the Act.

c. Initiatives in 2023

External dialogues	The EBARA Group Human Rights Committee conducts dialogues with external human rights experts to expand the scope of awareness around human rights issues and improve the Group's human rights management. [2023] ・ Participated in lectures by external experts and exchanged opinions on the theme of "IT and human rights."
Human rights due diligence	The EBARA Group Human Rights Committee believes it is especially crucial to the business operations of the Group that the human rights of employees are considered and that suppliers also act with respect for human rights, and therefore, conduct human rights due diligence. [Human rights due diligence with employees] Through the annual global engagement surveys conducted by the Human Resources Department targeting all Group's employees, we monitor the scores of approximately 60 organizations, with particular focus on the common human rights issues across the Group such as workplace fairness and equity, discrimination, and occupational safety and health. The EBARA Group Human Rights Committee instructs the companies whose engagement scores for human rights items do not meet a certain level to formulate human rights action plans, and then such companies implement measures for improvement. The results of these activities are then evaluated based on the scores in the following year's engagement survey. <Result in 2023> ・ Of five companies that we requested to implement improvement measures in 2023, two companies achieved the target level. We requested the three companies with room for improvement to continue formulating and implementing human rights action plans. [Human rights due diligence with suppliers] ・ In 2022, CSR procurement surveys were conducted among the Group's primary suppliers around the world to encourage them to understand and put EBARA's CSR Procurement Guidelines into practice, which include respect for human rights. ・ The survey includes questions regarding human rights, such as if suppliers are working to prevent child labor, forced labor, and discrimination, and whether they are maintaining appropriate working environments. The Human Rights Committee shares the responses to the human rights questions with the Procurement Department and promotes the development of sound supply chain management. Please see "(4) Indicators and targets, (iii) Respecting human rights" for details.

(3) Risk management

The Group's sustainability-related risk management is incorporated in our risk management system. The RMP, which oversees and deliberates on the Group's risk management activities and provides guidance and support for improvements, recognizes "Global environment / climate change," "Supply chain risk," and "Workstyles and human resources risks" and other risks common to the entire Group, and has established a framework to deal with these risks. Please see "3. Risk Factors" for details.

(4) Indicators and targets

The Group uses the following indicators to assess the progress with initiatives for (i) Climate change and carbon neutrality, (ii) Human capital / diversity, equity and inclusion (DE&I), and iii) Respecting human rights, as described in “(2) Strategies” above. The targets and results related to these indicates are as follows.

(i) Climate change and carbon neutrality

Item	Target	December 2019	December 2020	December 2021	December 2022	December 2023
CDP score (climate change)	(2025) Maintain B or above	B	C	D	B	B
Scope 1, 2 GHG emissions	(2025) Reduce by 32% compared to FY2018	174 thousand tons (increased by 9.2% compared to FY2018)	165 thousand tons (increased by 3.2% compared to FY2018)	167 thousand tons (increased by 4.2% compared to FY2018)	157 thousand tons (increased by 1.6% compared to FY2018)	127 thousand tons (decreased by 17.1% compared to FY2018) (*1)
Scope 3 / avoided emissions / other (Value chain)	(2025) Establish a practical measurement method for GHG emissions in value chain	—	—	—	—	Item changed to Scope 3 / avoided emissions / others (*2)

*1 Preliminary figures. Please see our website in June 2024 or later for finalized figures.

*2 Based on the Guidance on Avoided Emissions published by the WBCSD (World Business Council for Sustainable Development) in March 2023, we have added “avoided emissions / others” to the descriptions of our value chain targets. “Others” includes CO_2 equivalent emissions of gases with high GHG emission factors that are neutralized by the Group’s products.

(ii) Human capital / diversity, equity and inclusion (DE&I)

Item	Target	December 2019	December 2020	December 2021	December 2022	December 2023
Transform into a culture of competition and challenge, and strive to create an environment where diverse employees can comfortably work and perform well - Improve Engagement Survey Score (consolidated)	(2025) 83 or higher (2030) 86 or higher	75	78	79	79	78
Aim for global mobility improvement - Percentage of non-Japanese employees (consolidated) in Global Key Position (GKP)	(2025) 30% or higher (2030) 50% or higher	19%	20%	22%	23%	23%
Resolve gender pay gap (i) Percentage of female employees in GKP (consolidated) (ii) Percentage of female employees in managerial positions (non-consolidated)	(i) (2025) 8% or higher (2030) 10% or higher (ii) (2025) 8% or higher	(i) – (ii) 6.2%	(i) 5% (ii) 6.1%	(i) 5% (ii) 6.4%	(i) 7% (ii) 6.5%	(i) 8% (ii) 7.2%
Foster a company culture where employees can work and raise children at the same time regardless of gender - Percentage of male employees taking parental leave (non-consolidated)	(2025) 100% *Target set in November 2023	85.4%	76.7%	81.3%	79.6%	90.8%
- Percentage of employees with special needs (non-consolidated + four group affiliates)	(2025) 2.6% or higher	2.27%	2.58%	2.56%	2.37%	2.54%

(iii) Respecting human rights

Target	Results in December 2023
Implement necessary measures based on the results of human rights due diligence for suppliers	CSR procurement surveys were conducted among the Group's primary suppliers across the world to encourage them to understand and put EBARA's CSR Procurement Guidelines into practice, which include respect for human rights. By 2023, we received responses from a total of 1,301 primary suppliers, of which 852 were domestic companies and 449 were overseas companies. The survey includes questions regarding human rights, such as if suppliers are working to prevent child labor, forced labor, and discrimination, and if they are maintaining appropriate working environments. The Human Rights Committee shares the responses to the human rights questions with the Procurement Department and promotes the development of sound supply chain management. The following measures were implemented in 2023: (i) Requested responses from suppliers that had not answered to the survey (ii) Visited suppliers with low scores to provide on-site guidance (iii) Calculated scores based on survey responses and identified risks (iv) Created training materials and distributed them to suppliers (v) Sent a message from the President and Representative Executive Officer

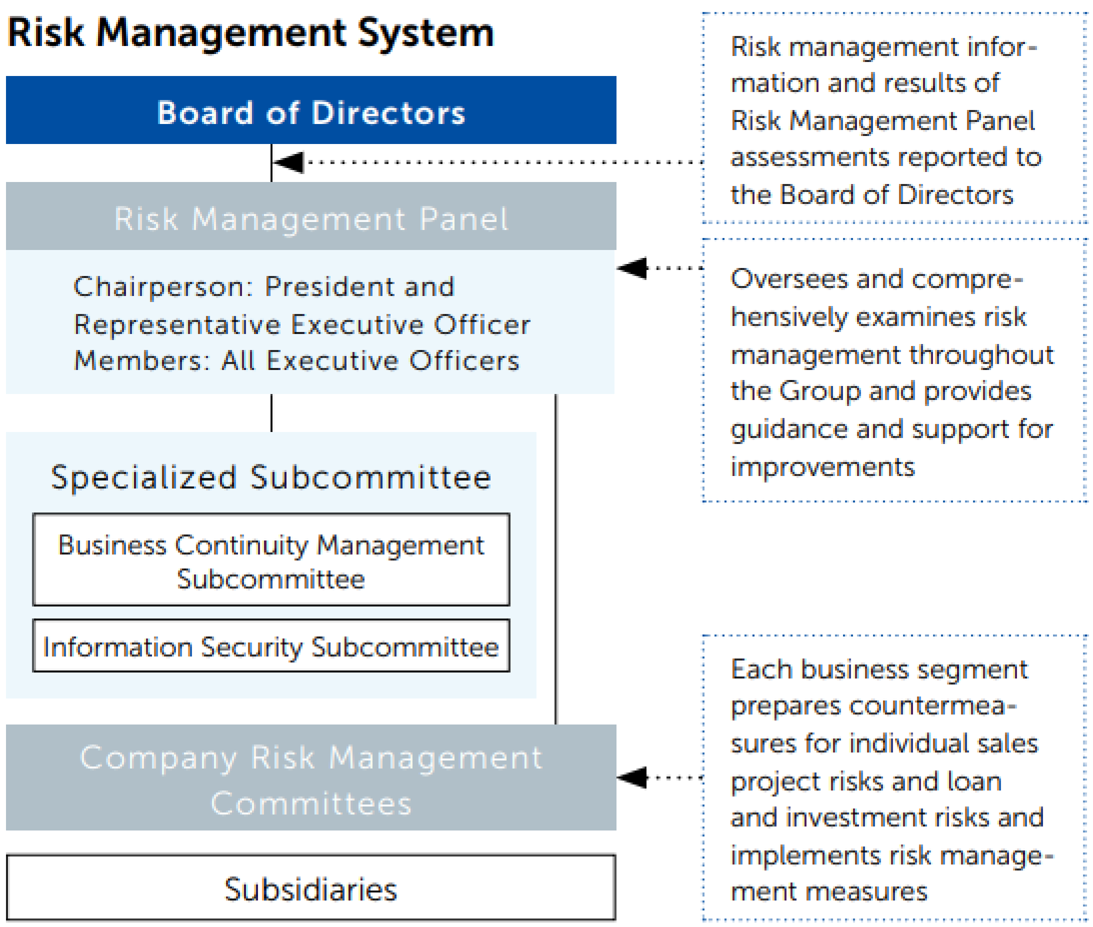
3. Risk Factors

(1) The Company's Risk Management System

The Risk Management Panel ("RMP") has been established as an organization that oversees, deliberates on, and provides guidance and support for improvement of the EBARA Group's risk management activities. The risk management system centered on the RMP is shown in the diagram below. The RMP is chaired by the President and Representative Executive Officer and consists of all Executive Officers. Non-executive Directors are present to provide supervision in risk management and to offer advice as necessary. The deliberations of the RMP are reported to the Board of Directors, and a system is in place to enable the Board of Directors to gain an accurate understanding of information and exercise its supervisory function. In addition, a task force headed by the President and Representative Executive Officer is launched when a company-wide response is required depending on the degree of risk response to ensure prompt reporting, communication, and decision making throughout the Company.

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

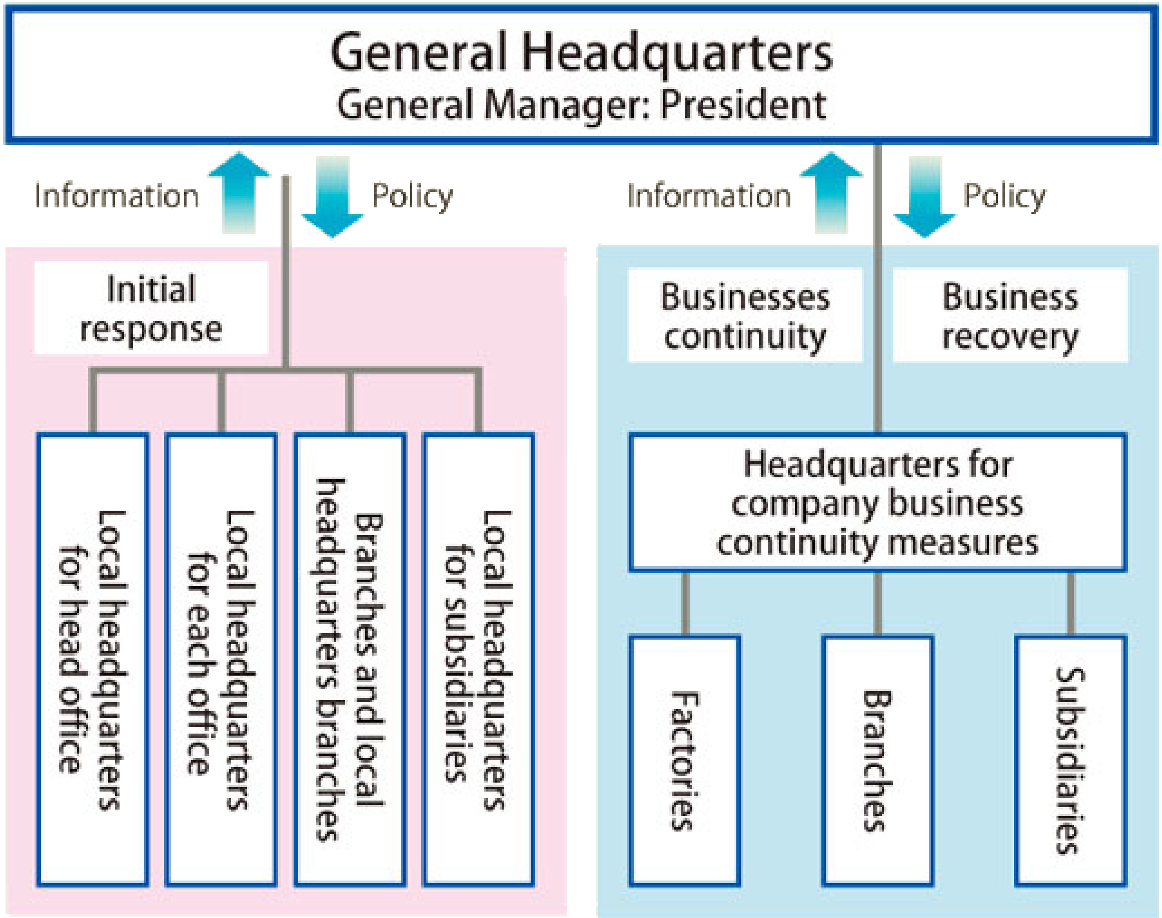
For an overall view of these executive committee bodies and the governance system, please refer to "IV. Information about Reporting Company, 4. Corporate Governance" and the website (https://www.ebara.co.jp/en/ir/governance/information/Basic-Policy-and-Framework.html).



(2) Business Continuity Management

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

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



(3) Risk Analysis and Significant Risks for the Group

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

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

We analyze the potential impact of higher temperatures on our business based on scenarios including the below 2°C scenarios, focusing on climate change factors, in line with the TCFD framework, while achieving consistency with the setting of a long-term vision.

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

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

(i) Company-wide risks

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

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

(ii) Risks by Major Markets

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

(4) Status of response to visible risks

In the event of a situation that may have a significant impact on management and requires a company-wide response, a risk response task force headed by the President and Representative Executive Officer is established as a system of response to risks ensuring prompt reporting, communication, and decision making company-wide. The risks that arose during the 159th fiscal year and our response to those risks are as follows.

(i) Countermeasures in Response to COVID-19

In response to COVID-19, the Group established the COVID-19 Infection Control Headquarters, headed by the President, to check the infection status of the Group on a weekly basis, while continuing to take infection prevention measures, promote vaccination of employees, their families, and partner companies, and implement new working styles living with COVID-19. During this period, the Board of Directors oversaw measures from a medium- to long-term perspective and monitored the status of infection and efforts to prevent the spread of infection, while each business location continued its business activities while working to prevent the spread of infection in accordance with the policies of each country's government and region. Following the reclassification of COVID-19 as a Class 5 Infectious Disease in May 2023, in response to the transition to the post-COVID-19 period, we have been engaging in our business activities under new ways of working to minimize the impact on our customers' businesses and lives while continuously taking measures to prevent the spread of infections as a company that provides products and services to society and industry by prioritizing the health and safety of our employees, customers, and all other stakeholders as well as the prevention of the spread of infections.

(ii) Response to Geopolitical Risks

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

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

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

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

For the fiscal year ended December 31, 2023, the overview of the financial position, operating results, and cash flows (hereinafter “operating results”) of the Group, and views and issues analyzed/considered 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, 2022	Fiscal year ended December 31, 2023	Change	Change (%)
Orders received	815,218	820,598	5,379	0.7
Revenue	680,870	759,328	78,458	11.5
Operating profit	70,572	86,025	15,452	21.9
Operating profit ratio (%)	10.4	11.3	—	—
Profit attributable to owners of parent	50,488	60,283	9,794	19.4
Basic earnings per share (Yen)	548.61	653.64	105.03	19.1

During the fiscal year ended December 31, 2023, the Japanese economy recovered moderately in terms of personal consumption and corporate capital investment, reflecting the normalization of socioeconomic activities accompanying the reclassification of COVID-19 to Class 5. On the other hand, the global economy showed signs of a slowdown in economic activity, including the prolonged situation in Ukraine, continued inflation worldwide, and restrained corporate investment in line with monetary tightening policies. Concerns about an economic downturn, particularly in China, Europe and the United States, and geopolitical risks, such as the strengthening of semiconductor export control regulations due to conflicts between the United States and China, continue, and the outlook remains uncertain.

Under these circumstances, we formulated E-Plan2025, a three-year medium-term management plan starting in 2023. Under the theme of "creating value from the customer's perspective," we have shifted to a face-to-face market structure to further strengthen competitiveness in each of our businesses, and we are moving forward with various measures to achieve our management indicators.

Regarding orders received for the fiscal year ended December 31, 2023, in Energy Business, we received for several large-scale projects due to brisk demand in LNG market, particularly in North America. In Asia, orders for large-scale projects in the petrochemical market increased significantly compared with the previous fiscal year. On the other hand, orders of Precision Machinery Business were sluggish, despite signs of bottoming out in some areas due to restrained capital investment by semiconductor manufacturers and adjustments to plant operations. Orders received for the entire company were higher than in the previous fiscal year due to the coverage of other businesses for the decline in Precision Machinery Business.

Revenue increased year on year in other businesses, excluding in Environment Business, and remained strong. Revenue increased due to steady growth in orders in the Building Service & Industrial, Energy, and Infrastructure Businesses, and improved production conditions in the Precision Machinery Business as a result of the elimination of a shortage of parts and materials, as well as progress in the elimination of the order backlog, which remained at a high level from the end of the previous fiscal year.

Operating profit increased due to higher sales, the effects of price revisions, and other factors despite an increase in personnel costs and in fixed costs associated with business expansion.

As a result, in the fiscal year ended December 31, 2023, consolidated orders received amounted to ¥820,598 million (an increase of 0.7% year-on-year), revenue amounted to ¥759,328 million (an increase of 11.5% year-on-year), operating profit amounted to ¥86,025 million (an increase of 21.9% year-on-year), profit attributable to owners of parent amounted to ¥60,283 million (an increase of 19.4% year-on-year). All of them replaced the past highest records.

Operating results by business segment are as follows. As described in “V. Financial Information, 1. Consolidated Financial Statements, (1) Notes to the Consolidated Financial Statements, 5. Business segments,” we made changes to reportable segments in the first quarter of the fiscal year under review. For year-on-year comparisons, figures for the previous fiscal year have been restated in accordance with new segment classifications.

(Millions of yen)

Segment	Orders received			Revenue			Segment profit		
	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023	Change (%)	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023	Change (%)	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023	Change (%)
Building Service & Industrial	204,869	221,351	8.0	193,529	222,181	14.8	11,401	15,737	38.0
Energy	148,032	222,776	50.5	143,605	167,229	16.5	16,936	22,347	31.9
Infrastructure	53,586	56,658	5.7	46,258	50,178	8.5	3,924	4,604	17.3
Environmental Solutions	105,810	100,854	(4.7)	73,738	71,540	(3.0)	3,669	6,933	89.0
Precision Machinery	301,551	217,791	(27.8)	222,259	246,998	11.1	36,183	38,285	5.8
Total of reportable segments	813,849	819,432	0.7	679,391	758,128	11.6	72,114	87,907	21.9
Others	1,368	1,165	(14.9)	1,478	1,199	(18.8)	(1,216)	(933)	—
Adjustment	—	—	—	—	—	—	(325)	(949)	—
Total	815,218	820,598	0.7	680,870	759,328	11.5	70,572	86,025	21.9

Building Service & Industrial

In the construction equipment market, growth slightly slowed as a whole for overseas markets, but capital investment in Japan remained robust. In China, where the real estate market is sluggish, orders received increased for products for the industrial and public sector markets, partly due to increased demand for energy-saving products and progress with public infrastructure investment projects. Revenue increased year on year due to growth in orders received and the effects of price revisions, among others. Segment profit increased partly due to improved profitability owing to product price revisions in addition to higher revenue.

As a result, in the fiscal year ended December 31, 2023, orders received amounted to ¥221,351 million, up ¥16,482 million year on year. Revenue amounted to ¥222,181 million, up ¥28,652 million year on year; and operating profit amounted to ¥15,737 million, up ¥4,336 million year on year.

Energy

In the LNG market, increasingly active business activities were observed, mainly in North America. In the petrochemical market, demand in North America, Asia, and the Middle East was robust, which led to orders remaining solid. Particularly in China, demand for petrochemical- and electric power-related products was strong. Revenue increased in North America, the Middle East, and Asia, including China, on the back of strong orders for products, and the Service & Support business also continued to perform well. Segment profit increased thanks to improved profitability of products and the effects of product price revisions in addition to higher revenue.

As a result, in the fiscal year ended December 31, 2023, orders received amounted to ¥222,776 million, up ¥74,743 million year on year. Revenue amounted to ¥167,229 million, up ¥23,623 million year on year; and operating profit amounted to ¥22,347 million, up ¥5,410 million year on year.

Infrastructure

In Japan, orders received increased year on year due to the receipt of multiple large-scale orders in the second half of the fiscal year amid robust demand for the renovation and maintenance of pump facilities. Orders for overseas water infrastructure projects also increased. Segment profit increased year on year due to profit increase due to revenue growth both in Japan and overseas and progress with high-margin projects for which revenue is recognized by the percentage-of-completion method.

As a result, in the fiscal year ended December 31, 2023, orders received amounted to ¥56,658 million, up ¥3,072 million year on year. Revenue amounted to ¥50,178 million, up ¥3,919 million year on year; and operating profit amounted to ¥4,604 million, up ¥679 million year on year.

Environmental Solutions

Orders received decreased year on year, although we received orders for a total of two projects, one large-scale DBO project and one long-term comprehensive project. In terms of revenue, EPC sales declined in the fiscal year under review due to the small number of orders received for EPC projects in previous fiscal years. Meanwhile, revenue booked for O&M projects was stable. Segment profit increased due to improved profitability in the electricity distribution business and other factors in addition to an increase in the weighting of revenue from O&M projects in total revenue.

As a result, in the fiscal year ended December 31, 2023, orders received amounted to ¥100,854 million, down ¥4,956 million year on year. Revenue amounted to ¥71,540 million, down ¥2,198 million year on year; and operating profit amounted to ¥6,933 million, up ¥3,264 million year on year.

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

EPC: (Engineering, Procurement, Construction): The engineering, procurement, and construction of plants

DBO (Design, Build, 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

Precision Machinery

In the semiconductor market, Chinese semiconductor manufacturers continued to make active investments, but global capital investments continued to be postponed or partially canceled. In terms of orders received, although there were active investments by some Chinese customers, demand remained low on the whole. In terms of revenue, revenue for CMP equipment increased due to steady elimination of the order backlog at the beginning of the fiscal year, but revenue for components decreased amid sluggish capacity utilization at customers' plants. Although revenue for the Service & Support business decreased and fixed costs rose, segment profit increased due to higher revenue and favorable foreign exchange rates.

As a result, in the fiscal year ended December 31, 2023, orders received amounted to ¥217,791 million, down ¥83,759 million year on year. Revenue amounted to ¥246,998 million, up ¥24,738 million year on year; and operating profit amounted to ¥38,285 million, up ¥2,102 million year on year.

Outline of Business Environment and Situation by Business Segment

Segment	Business environment in the fiscal year ended December 31, 2023	Business situation and the trend of orders received (Note 1)
Building Service & Industrial	(Overseas) ・The market in North America is stagnant due to high interest rates, high construction costs, and a shortage of labor. ・In Europe, investment has been restrained by inflation and rising interest rates, and the housing market in particular has been sluggish. ・In China, the construction market is sluggish due to restraints on real estate investment for commercial and residential use. On the other hand, industrial and public sector markets have been firm due to government investment. (Japan) ・In the construction equipment market, the number of construction starts turned downward YoY, but demand in the service market is on an uptrend. ・In the industrial market, major changes are anticipated in the medium to long term, such as the consideration of capital investment with an eye to decarbonization and the conversion of the business structure, but they are currently trending steadily.	(Overseas) · Orders received increased year on year due to steady orders in China and North and South America resulting from continued investment in China's industrial and public sector markets and the effects of the acquisition of North American pump manufacturers in 2022. (Japan) · Orders received increased from the previous fiscal year due to steady growth from the effects of measures such as the introduction of low environmental impact products. ↗
Energy	· In the new product market, demand for projects for the petrochemical market continues, mainly in North America, Asia, and the Middle East. As in the previous fiscal year, there have been active movements in LNG market, particularly in North America and the Middle East. China's electricity market continues to be active. · In the service market as a whole, demand for maintenance, repair, and parts has been firm.	· Orders received for products increased from the previous fiscal year. · Orders received in the service sector have stabilized compared to the boom in the previous fiscal year. ↗
Infrastructure	(Overseas) · In the water infrastructure market, demand was supported by the government's economic stimulus measures in China. Demand was also firm in Southeast Asia and North America due to economic growth and the development of aging facilities. (Japan) · Investment in the renewal and repair of social infrastructure has been firm. · The public sector construction market has been at a higher level than in the previous fiscal year. Demand for after sales of existing facilities continues to be firm.	(Overseas) · Orders received for water infrastructure increased from the previous fiscal year. (Japan) · Orders received for the public sector rose from the previous fiscal year due to ongoing measures, such as comprehensive evaluation projects and an increase in orders for after sales services. ↗
Environmental Solutions (Note 2)	(Japan) · Demand for new construction of waste treatment facilities for the public sector is trending as usual. · Orders for O&M at existing facilities are trending as usual. · Construction demand for woody biomass power generation facilities for the private sector and industrial waste treatment facilities such as waste plastics continues at a certain level.	(Japan) · Orders in EPC were down year on year, but largely in line with forecasts. · O&M orders exceeded the previous fiscal year due to large-scale projects at the end of the fiscal year. (Overview of large-scale orders received) · DBO of public sector waste treatment facilities (one project) · Long term comprehensive management contract and a core facility improvement project for a public waste treatment facility (one project) →
Precision Machinery	· Although the slump in semiconductor demand has bottomed out and the normalization of customers' product inventories has progressed, the customers have yet to resume full scale investment to increase production. Factory utilization rates have risen for some customers, but the adjustment phase generally continues.	· With the exception of some semiconductor manufacturers in China, logic foundries and memory manufacturers are all slowing investment, and orders received are lower than in the previous fiscal year. ↘

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. EPC (Engineering, Procurement, Construction): The engineering, procurement, and construction of plants

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

DBO (Design, Build, 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, 2023 is as follows:

Segment	Production (Millions of yen)	YoY change (%)
Reportable segments		
Building Service & Industrial	217,297	12.0
Energy	160,375	26.2
Infrastructure	44,502	(30.1)
Environmental Solutions	11,550	(46.2)
Precision Machinery	199,532	8.7
Total of reportable segments	633,258	7.4
Others	328	(16.1)
Total	633,586	7.4

(ii) Overview of Orders Received

The overview of orders received by segment during the fiscal year ended December 31, 2023 is as follows:

Segment	Orders received (Millions of yen)	YoY change (%)	Backlog of orders received (Millions of yen)	YoY change (%)
Reportable segments				
Building Service & Industrial	221,351	8.0	60,693	(3.3)
Energy	222,776	50.5	210,159	42.5
Infrastructure	56,658	5.7	67,409	13.2
Environmental Solutions	100,854	(4.7)	346,965	9.3
Precision Machinery	217,791	(27.8)	205,462	(11.0)
Total of reportable segments	819,432	0.7	890,690	8.9
Others	1,165	(14.9)	33	(51.0)
Total	820,598	0.7	890,723	8.9

(iii) Actual Sales

Actual sales by segment during the fiscal year ended December 31, 2023 are as follows:

Segment	Sales (Millions of yen)	YoY change (%)
Reportable segments		
Building Service & Industrial	222,181	14.8
Energy	167,229	16.5
Infrastructure	50,178	8.5
Environmental Solutions	71,540	(3.0)
Precision Machinery	246,998	11.1
Total of reportable segments	758,128	11.6
Others	1,199	(18.8)
Total	759,328	11.5

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, 2023 were ¥913,900 million, ¥85,850 million higher than as of December 31, 2022. Principal changes are an increase of ¥31,922 million in cash and cash equivalents, an increase of ¥19,278 million in inventories, an increase of ¥11,698 million in trade and other receivables, an increase of ¥10,166 million in property, plant and equipment and an increase of ¥7,048 million in goodwill and intangible assets.

(ii) Liabilities

Total liabilities as of December 31, 2023 were ¥492,327 million, ¥34,004 million higher than as of December 31, 2022. Principal changes are included a decrease of ¥23,023 million in trade and other payables, an increase of ¥29,750 million in contract liabilities, and an increase of ¥25,915 million in bonds, borrowings and lease liabilities.

(iii) Equity

Equity as of December 31, 2023 amounted to ¥421,572 million, ¥51,846 million higher than as of December 31, 2022. Principal changes are dividends paid of ¥18,943 million, profit attributable to owners of parent of ¥60,283 million, and an increase of ¥9,929 million in exchange differences on translation of foreign operations.

Total equity attributable to owners of parent amounted to ¥409,875 million, and the ratio of equity attributable to owners of parent was 44.8%.

(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 ¥70,012 million for the fiscal year ended December 31, 2023, an inflow increase of ¥32,942 million compared to the previous year.

Net cash used in investing activities amounted to a net outflow of ¥35,625 million for the fiscal year ended December 31, 2023, an outflow decrease of ¥2,699 million compared to the previous year. This is primarily due to the purchase of fixed assets of ¥34,467 million.

Free cash flow, the sum of cash flows from operating and investing activities, amounted to a net inflow of ¥34,387 million for the fiscal year ended December 31, 2023, an increase of ¥35,641 million in net inflow compared to the previous year.

Net cash used in financing activities amounted to a net outflow of ¥4,658 million for the fiscal year ended December 31, 2023, a decrease of ¥19,090 million in net outflow compared to the previous year. This is primarily due to a net increase of ¥22,433 million in short-term borrowings and long-term borrowings, and dividends paid of ¥18,943 million.

As a result, cash and cash equivalents as of December 31, 2023 amounted to ¥148,059 million, ¥31,922 million increase compared to the previous year.

(ii) Basic Policy for Financial Strategies

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

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

(iii) Financing

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

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

Contract types and balance of unexecuted borrowings as of the end of the fiscal year under review are as follows.

Type	Amount
Overdraft contract	¥5,000 million
Commitment line contracts	¥80,000 million
Balance of executed borrowings	—
Balance of unexecuted borrowings	¥85,000 million

(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 further 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. 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.

6. 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 R&D activities in each business and the corporate R&D organization that collaborates with each business.

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

In addition to strengthening the common foundation and strategically important core technologies that support these businesses, the corporate R&D organization established the R&D Strategy Formulation Committee and commenced the formulation of a medium- to long-term technology development strategy with an eye to 2030 and beyond. We will continue to develop these activities and ramp up proposals of research themes and the implementation of concrete measures in order to achieve our future vision. Additionally, we are using the Ebara Innovation for X (EIX) system, a system for creating new businesses, to start implementing work assistance and training methods using virtual, augmented, and mixed reality (xR) technologies at several departments. Furthermore, we are promoting the practical application of products manufactured using metal 3D printers and accelerating the digital transformation (DX) of manufacturing sites.

In the CP Hydrogen Business Project, a Group-wide challenge, EBARA has started business activities aimed at social implementation. By strengthening activities aimed at the social implementation of clean hydrogen-related technologies in all areas of production, transport, and use by leveraging EBARA’s technologies and know-how, as well as strengthening industry-government-academia collaboration and engaging in cross-organizational efforts with co-creation as our basic philosophy, we will contribute to the realization of a new society brought about by hydrogen. Specifically, we are developing the world’s first liquid hydrogen booster pump, hydrogen gas-driven absorption chiller/heater, and hydrogen compressors. We are also participating in the NEDO (New Energy and Industrial Technology Development Organization) project for turquoise hydrogen production using natural gas and strengthening our research and development efforts for clean hydrogen production. In addition, we are taking on the even more challenging aerospace field, such as satellite rockets and fuel supply pumps for hydrogen aircraft.

Moreover, in order to contribute to a world with ample food and water, we have established a land-based aquaculture demonstration facility at the Sodegaura Plant, and are working to develop advanced manufacturing system technology. In the biotechnology field, we are working on the development of a high-efficiency cell culture system while cultivating cells in our own laboratory.

R&D expenses for the fiscal year ended December 31, 2023 amounted to ¥18,281 million.

Activities by business segment are as follows:

Building Service & Industrial (BSI)

In the Building Service & Industrial (BSI) field, in addition to the development of products and services related to standard pumps, fans, and freezer chillers, we are working to solve more complex customer issues by exploring and proposing solution technologies through a combination of these products.

In standard pumps, the BSI Company commenced sales of submersible sewage pumps with highly efficient wastewater treatment and non-occlusion properties for the global market. It is also expanding the product lineup of standard pumps with inverter-integrated PM motor IVMs and conducting mounting experiments in the market to verify energy efficiency.

In freezer chillers, the BSI Company is continuously expanding its product lineup including absorption chillers capable of recovering waste heat and turbo refrigeration units that use refrigerants with low global warming potential, and working to expand the range of applications. For temperature controllers for the semiconductor market, it is proceeding with evaluations by equipment manufacturers and end-users in order to substantiate the stability of operation and energy-saving effects.

With regard to basic technology, the BSI Company is developing performance, vibration, and strength evaluation methods using fluid and structural numerical simulations, streamlining the digital design and analysis process including the automation of 3D-CAD and optimization design, and developing operating condition diagnosis methods by analyzing the operating data of pumps and fans. It is also integrating existing independent product-based remote monitoring systems, and building a system that can centrally monitor the operating condition of pumps, fans, and chillers.

During the fiscal year ended December 31, 2023, the BSI Company made R&D expenditures of ¥4,598 million.

Energy

In the compressor and turbine field, the Energy Company completed the development of new high-efficiency turbines that contribute to conserving energy and resources, and put them on the market. It continues to develop elemental technologies for the development of CO_2 and hydrogen compressors and for the improvement of the performance and reliability of compressors, turbines, and cryopumps.

In custom pumps, the Energy Company completed the development of ammonia pumps to meet the needs of decarbonization in the energy field, and put them on the market.

During the fiscal year ended December 31, 2023, the Energy Company made R&D expenditures of ¥3,445 million.

Infrastructure

In the Infrastructure field, the Infrastructure Company engages in development activities related to products, system technologies, and construction to achieve optimization in line with the characteristics of each customer in Japan and overseas. It also conducts continual reviews not only to produce equipment that meets various needs depending on the application and usage environment, but also to improve management and operation technology, conserve energy and resources, and reduce environmental impact.

Meanwhile, at the Futtsu Plant, which manufactures custom pump products, in addition to the Infrastructure Company, we continue to support development at overseas plants in the energy, construction, and industrial fields, and carry out efforts to supply products that meet decarbonization needs.

During the fiscal year ended December 31, 2023, the Infrastructure Company made R&D expenditures of ¥690 million.

Environmental Solutions (ES)

In the Environmental Solutions field, the ES 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 basis. The ES 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 services of existing facilities. In these situations, the ES 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 the ES Company is promoting the utilization of AI/ICT technology with a view to realizing autonomous operation. In addition, the ES Company is working to develop element technologies for improving power generation efficiency and operational stability in industrial waste incineration facilities and biomass power generation facilities with the expectation of expanding demand for renewable energy. Furthermore, the ES Company is developing recycling technology for chemical recycling of waste plastics to contribute to the carbon neutrality and reduction of marine pollution caused by plastics, which have recently become global trends.

During the fiscal year ended December 31, 2023, the ES Company made R&D expenditures of ¥1,481 million.

Precision Machinery (PM)

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

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

During the fiscal year ended December 31, 2023, the PM Company made R&D expenditures of ¥8,064 million.

III. Facilities

1. Overview of Capital Investment

For the fiscal year under review, the Group implemented capital investments amounting to ¥40,699 million, primarily for the expansion of production capability and increasing 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.

(Building Service & Industrial)

Investments were made primarily for the maintenance and enhancement of production capability and the increase in productivity. The amount of capital investment was ¥9,512 million.

(Energy)

Investments were made primarily for the maintenance and enhancement of production capability and the increase in productivity. The amount of capital investment was ¥6,513 million.

(Infrastructure)

Investments were made primarily for the maintenance and enhancement of production capability and the increase in productivity. The amount of capital investment was ¥564 million.

(Environmental Solutions)

Investments were made primarily for information technology equipment and for the development of technology aimed at improving functionality. The amount of capital investment was ¥2,748 million.

(Precision Machinery)

Investments were made primarily for the enhancement of production capability. The amount of capital investment was ¥12,233 million.

(Others)

Investments were made primarily for information technology equipment and software. The amount of capital investment was ¥9,344 million.

2. Major Facilities

(1) Reporting Company

As of December 31, 2023

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)	Building Service & Industrial, Energy, Infrastructure	Facilities for production of pumps, etc.	4,735	564	1,850 (103)	―	38	7,188	290
Sodegaura District (Sodegaura-shi, Chiba)	Energy	Facilities for production of compressors and turbines, etc.	67	0	1,818 (143)	―	―	1,885	2
Fujisawa District (Fujisawa-shi, Kanagawa)	Building Service & Industrial	Facilities for production of pumps and freezer chillers, etc.	1,294	2,398	363 (147)	―	93	4,150	433
Fujisawa District (Fujisawa-shi, Kanagawa)	Precision Machinery	Facilities for production and development of semiconductor manufacturing equipment and vacuum pumps, etc.	14,464	14,193	465 (188)	39	1,611	30,775	1,169
Kumamoto District (Tamana-gun, Kumamoto)	Precision Machinery	Facilities for production of semiconductor manufacturing equipment, etc.	4,963	242	2,149 (203)	22	186	7,564	217
Head Office, etc. (Ota-ku, Tokyo, etc.)	Others	Information infrastructure equipment and office buildings, etc.	11,471	2,309	1,892 (14)	534	1,097	17,305	728

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, 2023

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	
EBARA FAN & BLOWER CO., LTD. (Suzuka-shi, Mie, etc.)	Building Service & Industrial	Facilities for production of fans, etc.	755	722	109 (60) [34]	-	79	1,667	249
Elliott Ebara Turbomachinery Corporation (Sodegaura-shi, Chiba) (Note 4)	Energy	Facilities for production of compressors and turbines, etc.	534	1,758	-	217	86	2,596	401
Chubu Recycle Co., Ltd. (Nagoya-shi, Aichi)	Environmental Solutions	Facilities for melting and recycling of incinerator ash and fly ash, etc.	394	599	- [39]	22	22	1,039	56

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, 2023

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 REFRIGERATION EQUIPMENT & SYSTEMS (CHINA) CO., LTD. (China) (Note 3)	Building Service & Industrial	Facilities for production of refrigeration and heating equipment, etc.	1,509	267	— [309]	611	191	2,579	603
Ebara Pumps Europe S.p.A. (Italy) (Note 4)	Building Service & Industrial	Facilities for production of pumps, etc.	365	2,268	48 (25) [27]	1,213	109	4,005	498
Elliott Company (United States)	Energy	Facilities for production of compressors and turbines, etc.	11,251	8,656	310 (482)	1,015	566	21,800	1,131
EBARA MACHINERY ZIBO CO., LTD. (China) (Note 3)	Energy	Facilities for production of pumps, etc.	725	398	— [59]	361	70	1,555	327
EBARA VIETNAM PUMP COMPANY LIMITED (Vietnam) (Note 3)	Infrastructure	Facilities for production of pumps, etc.	957	457	— [28]	179	2	1,596	330
Ebara Precision Machinery Korea Inc. (Korea)	Precision Machinery	Facilities for production of component devices and semiconductor manufacturing equipment, etc.	1,503	1,397	424 (9)	—	16	3,342	268
Ebara Precision Machinery Taiwan Inc. (Taiwan)	Precision Machinery	Facilities for production of vacuum pumps and CMP equipment, etc.	665	753	700 (7)	147	47	2,314	400

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

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

3. The area related to land-use rights is in brackets [ ].

4. The area of land leased from parties other than consolidated companies is in brackets [ ].

3. Plan of New Installation and Disposal of Facilities

(1) New Installation of Major Facilities

Company/district name (Location)	Segment	Facilities	Investment plan (Millions of yen)	Financing method
Reporting company				
Fujisawa District (Fujisawa-shi, Kanagawa)	Building Service & Industrial	Facilities for production of pumps, etc.	5,400	Self funding, etc.
Head Office, etc. (Ota-ku, Tokyo, etc.)	Building Service & Industrial	Information infrastructure equipment	1,400	Self funding, etc.
Elliott Ebara Turbomachinery Corporation (Sodegaura-shi, Chiba)	Energy	Facilities for production and testing of compressors and turbines, etc.	13,000	Self funding, etc.
Elliott Company (U.S.A.)	Energy	Facilities for production and testing of compressors and turbines, etc. and service shops, etc.	2,400	Self funding, etc.
Reporting company				
Futtsu District (Futtsu-shi, Chiba)	Infrastructure	Facilities for production of pumps, etc.	500	Self funding, etc.
Head Office, etc. (Ota-ku, Tokyo, etc.)	Infrastructure	Information infrastructure equipment	700	Self funding, etc.
Reporting company				
Fujisawa District (Fujisawa-shi, Kanagawa)	Precision Machinery	Facilities for production of semiconductor manufacturing equipment and vacuum pumps, etc.	6,700	Self funding, etc.
Kumamoto District (Tamana-gun, Kumamoto)	Precision Machinery	Facilities for production of semiconductor manufacturing equipment, etc.	8,000	Self funding, etc.
Head Office, etc. (Ota-ku, Tokyo, etc.)	Precision Machinery	Information infrastructure equipment	3,000	Self funding, etc.
Ebara Precision Machinery Taiwan Incorporated (Taiwan)	Precision Machinery	Facilities for production of vacuum pumps, etc.	4,800	Self funding, etc.
Reporting company				
Head Office, etc. (Ota-ku, Tokyo, etc.)	Others	Information infrastructure equipment and office buildings, etc.	9,700	Self funding, etc.

Note: 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, 2023)	Number of issued shares as of filing date (shares) (March 28, 2024)	Name of financial instruments exchange on which securities are listed or authorized financial instruments business association to which securities are registered	Description
Common shares	92,349,082	92,365,382	Prime Market of the Tokyo Stock Exchange	Shares with full voting rights, which are standard shares of the Company with no restrictions on rights. The number of shares constituting one unit is 100 shares.
Total	92,349,082	92,365,382	–	–

Notes: 1. During the period from January 1, 2024 to February 29, 2024, the Company issued 16,300 shares upon exercise of subscription rights to shares (stock options).

2. The number of issued shares as of the filing date does not include shares issued upon exercise of subscription rights to shares between March 1, 2024 and the filing date of this 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 vii) 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, 2023	As of the month end prior to the filing date (February 29, 2024)
Number of subscription rights to shares (units)	23 (Note 1)	23 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	4,600 common shares (Note 1)	4,600 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: 1,706 Amount of capital incorporation: 853 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

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

(3) When Share Subscription Right Holders are those newly appointed as Directors or Executive Officers (*shikkou-yakuin*) on or after July 1, 2009, or when they retire from their positions as Directors or Executive Officers (*shikkou-yakuin*) on or before the last day of the Final Fiscal Year, the number of subscription rights to shares they may exercise shall be

calculated by multiplying the adjusted figure described in (2) above by a term of office ratio (a figure representing the ratio of days in office to the number of days in the period from April 1, 2009 through March 31, 2011).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

ii) 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, 2023	As of the month end prior to the filing date (February 29, 2024)
Number of subscription rights to shares (units)	193 (Note 1)	155 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	38,600 common shares (Note 1)	31,000 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2014 to June 30, 2026	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 1,226 Amount of capital incorporation: 613 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

iii) 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 Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2023	As of the month end prior to the filing date (February 29, 2024)
Number of subscription rights to shares (units)	32 (Note 1)	32 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	6,400 common shares (Note 1)	6,400 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2014 to June 30, 2026	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 2,601 Amount of capital incorporation: 1,300.5 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

iv) 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 Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2023	As of the month end prior to the filing date (February 29, 2024)
Number of subscription rights to shares (units)	260 (Note 1)	239 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	52,000 common shares (Note 1)	47,800 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: 3,066 Amount of capital incorporation: 1,533 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

v) 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 Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2023	As of the month end prior to the filing date (February 29, 2024)
Number of subscription rights to shares (units)	75 (Note 1)	64 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	15,000 common shares (Note 1)	12,800 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 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.

vi) 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 Directors and Executive Officers (*shikkou-yakuin*) of subsidiaries)		
	As of December 31, 2023	As of the month end prior to the filing date (February 29, 2024)
Number of subscription rights to shares (units)	15 (Note 1)	11 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	3,000 common shares (Note 1)	2,200 common shares (Note 1)
Paid-in amount upon exercise of subscription rights to shares (yen)	1 (Note 2)	Same as the left
Exercise period of subscription rights to shares	From July 1, 2017 to June 30, 2029	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 2,749 Amount of capital incorporation: 1,374.5 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

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

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

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

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

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

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

(Attained performance conditions)

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

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

(Restrictions on exercise period)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

vii) 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 Directors and Advisory Officers of subsidiaries)		
	As of December 31, 2023	As of the month end prior to the filing date (February 29, 2024)
Number of subscription rights to shares (units)	195 (Note 1)	180 (Note 1)
Class, details and number of shares underlying subscription rights to shares (shares)	19,500 common shares (Note 1)	18,000 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 April 1, 2020 to March 31, 2032	Same as the left
Issue price and the amount of capital incorporation of the shares issued upon exercise of subscription rights to shares (yen)	Issue price: 3,454 Amount of capital incorporation: 1,727 (Note 3)	Same as the left
Conditions for exercising subscription rights to shares	(Note 4)	Same as the left
Matters related to the transfer of subscription rights to shares	The acquisition of the subscription rights to shares by transfer shall require the approval of the Company.	Same as the left
Matters related to the issuance of subscription rights to shares associated with the Reorganization Activity	(Note 5)	Same as the left

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

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

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

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

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

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

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

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

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

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

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

(Attained performance conditions)

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

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

(Restrictions on exercise period)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(ii) Details of Rights Plans

Not applicable.

(iii) Status of Other Subscription Rights to Shares

Not applicable.

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

Not applicable.

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

Date	Changes in the total number of shares issued (Shares)	Balance of the total number of shares issued (Shares)	Changes in share capital (Millions of yen)	Balance of share capital (Millions of yen)	Changes in legal capital surplus (Millions of yen)	Balance of legal capital surplus (Millions of yen)
From January 1, 2019 to May 7, 2019 (Note 1)	37,800	101,995,653	37	79,104	37	83,032
May 8, 2019 (Note 2)	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 3)	(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 4)	88,500	95,293,253	97	79,340	97	83,269
May 12, 2020 (Note 5)	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 6)	40,680	95,452,933	101	79,576	101	83,504
From May 13, 2021 to December 31, 2021 (Note 1)	60,700	95,513,633	67	79,643	67	83,571
From January 1, 2022 to January 30, 2022 (Note 1)	5,600	95,519,233	8	79,651	8	83,579
January 31, 2022 (Note 7)	(3,513,400)	92,005,833	–	79,651	–	83,579
From February 1, 2022 to May 11, 2022 (Note 1)	16,200	92,022,033	18	79,670	18	83,598
May 12, 2022 (Note 8)	32,582	92,054,615	97	79,768	97	83,696
From May 13, 2022 to December 31, 2022 (Note 1)	31,400	92,086,015	35	79,804	35	83,732
From January 1, 2023 to May 9, 2023 (Note 1)	41,000	92,127,015	48	79,852	48	83,781
May 10, 2023 (Note 9)	35,667	92,162,682	104	79,957	104	83,885
May 10, 2023 (Note 10)	177,200	92,339,882	519	80,476	519	84,404
From May 11, 2023 to December 31, 2023 (Note 1)	9,200	92,349,082	12	80,489	12	84,417

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: ¥3,300

Amount of capital incorporation: ¥1,650

Allottees: 2 Directors, 4 Executive Officers (*shikkou-yaku*), and 9 employees of the Company, and 3 Directors of the subsidiaries

3. 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.

4. 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 the subsidiaries
5. 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 the subsidiaries
6. 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 (*shikkou-yaku*), and 18 employees of the Company, and 8 Directors and 1 employee of the subsidiaries
7. The decrease was due to the retirement of treasury shares on January 31, 2022 by the resolution of the Board of Directors meeting held on May 14, 2021.
8. The increase was due to the issuance of new shares as restricted stock compensation.
   Issue price: ¥6,010
   Amount of capital incorporation: ¥3,005
   Allottees: 9 Directors, 14 Executive Officers (*shikkou-yaku*), and 14 employees of the Company, and 6 Directors and 3 employees of the subsidiaries
9. The increase was due to the issuance of new shares as restricted stock compensation.
   Issue price: ¥5,860
   Amount of capital incorporation: ¥2,930
   Allottees: 10 Directors, 13 Executive Officers (*shikkou-yaku*), and 20 employees of the Company, and 8 Directors and 2 employees of the subsidiaries
10. The increase was due to the issuance of new shares as performance-linked stock compensation.
    Issue price: ¥5,860
    Amount of capital incorporation: ¥2,930
    Allottees: 2 Directors, 17 Executive Officers (*shikkou-yaku*), and 25 employees of the Company, and 13 Directors and 3 employees of the subsidiaries
11. During the period from January 1, 2024 to February 29, 2024, 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 16 thousand shares, ¥16 million and ¥16 million, respectively.

(5) Shareholding by Shareholder Category

As of December 31, 2023

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	41	310	441	37	17,223	18,125	—
Number of shares held (units)	–	307,134	50,217	26,046	437,360	638	100,489	921,884	160,682
Percentage of shareholdings (%)	–	33.32	5.45	2.83	47.44	0.07	10.90	100.00	—

Notes:
1. Out of 26,531 treasury shares, 265 units are included in “Individuals and others” and 31 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, 2023

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	17,055	18.47
Ichigo Trust Pte. Ltd.(Standing proxy: Custody Department, Tokyo branch, The Hongkong and Shanghai Banking Corporation Limited)	1 North Bridge Road, 06-08 High Street Centre, Singapore 179094 (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	9,890	10.71
Custody Bank of Japan, Ltd. (Trust Account)	1-8-12, Harumi, Chuo-ku, Tokyo	7,230	7.83
BNYM AS AGT/CLTS NON TREATY JASDEC (Standing proxy: MUFG Bank, Ltd.)	240 Greenwich Street, New York City, New York 10286 U.S.A. (2-7-1, Marunouchi, Chiyoda-ku, Tokyo)	3,036	3.29
JP MORGAN CHASE BANK 385781 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank Ltd.)	25 Bank Street, Canary Wharf, London, E14 5JP, U.K. (Shinagawa Intercity Tower A, 2-15-1, Konan, Minato-ku, Tokyo)	1,534	1.66
SMBC Nikko Securities Inc.	3-3-1 Marunouchi, Chiyoda-ku, Tokyo	1,377	1.49
SSBTC CLIENT OMNIBUS ACCOUNT (Standing proxy: Custody Department, Tokyo branch, The Hongkong and Shanghai Banking Corporation Limited)	One Congress Street, Suite 1, Boston, Massachusetts (3-11-1 Nihonbashi, Chuo-ku, Tokyo)	1,260	1.37
STATE STREET BANK WEST CLIENT - TREATY 505234 (Standing proxy: Settlement & Clearing Services Division, Mizuho Bank Ltd.)	1776 Heritage Drive, North Quincy, MA 02171, U.S.A. (Shinagawa Intercity Tower A, 2-15-1, Konan, Minato-ku, Tokyo)	1,147	1.24
Nippon Life Insurance Company	1-6-6, Marunouchi, Chiyoda-ku, Tokyo Securities Operations Department, Nippon Life Insurance Company	1,018	1.10
The Ebara Hatakeyama Memorial Foundation	11-1, Haneda Asahi-cho, Ota-ku, Tokyo	988	1.07
Total	–	44,540	48.25

1. In the change report pertaining to a report of possession of large volume available for public inspection as of December 6, 2023, it is stated that Sumitomo Mitsui Trust Asset Management Co., Ltd. and its joint holder held 5,537 thousand shares (equivalent to a 6.00% holding ratio of share certificates, etc.) as of November 30, 2023. However, they are not included in the aforementioned status of major shareholders because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2023.

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 Asset Management Co., Ltd.	1-1-1 Shibakoen, Minato-ku, Tokyo	2,809	3.04
Nikko Asset Management Co., Ltd.	9-7-1 Akasaka, Minato-ku, Tokyo	2,727	2.95

2. In a report of possession of large volume available for public inspection as of November 4, 2022, it is stated that BlackRock (Japan) Limited and its seven joint holders collectively held 5,160 thousand shares (equivalent to a 5.60% holding ratio of share certificates, etc.) as of October 31, 2022. However, they are not included in the aforementioned status of major shareholders because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2023.

The detail of the report is as follows:

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

3. 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, it is not included in the aforementioned status of major shareholders because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2023.

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

4. In the change report pertaining to a report of possession of large volume available for public inspection as of December 7, 2023, it is stated that Nomura Asset Management Co., Ltd. held 4,674 thousand shares (equivalent to a 5.06% holding ratio of share certificates, etc.) as of November 30, 2023. However, it is not included in the aforementioned status of major shareholders because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2023.

The detail of the report is as follows:

Name	Address	Number of share certificates, etc. held (thousands of shares)	Holding ratio of share certificates, etc. (%)
Nomura Asset Management Co., Ltd.	2-2-1 Toyosu, Koto-ku, Tokyo	4,674	5.06

5. In the change report pertaining to a report of possession of large volume available for public inspection as of July 18, 2023, it is stated that Mitsubishi UFJ Trust and Banking Corporation and its three joint holders collectively held 4,403 thousand shares (equivalent to a 4.77% holding ratio of share certificates, etc.) as of July 10, 2023. However, they are not included in the aforementioned status of major shareholders because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2023.

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	2,568	2.78
MUFG Securities EMEA plc	Ropemaker Place, 25 Ropemaker Street, London EC2Y 9AJ, United Kingdom	650	0.70
Mitsubishi UFJ Kokusai Asset Management Co., Ltd.	1-12-1 Yurakucho, Chiyoda-ku, Tokyo	1,050	1.14
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.	1-9-2 Otemachi, Chiyoda-ku, Tokyo	134	0.15

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, they are not included in the aforementioned status of major shareholders because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2023.

The detail of the report is as follows:

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

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, it is not included in the aforementioned status of major shareholders because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2023.

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, it is not included in the aforementioned status of major shareholders because the Company was unable to verify the number of shares substantially held by the aforementioned parties as of December 31, 2023.

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, 2023

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 26,500	–	Standard shares of the Company with no restrictions on rights
Shares with full voting rights (other)	Common shares 92,161,900	921,619	Same as above
Shares of less than one unit	Common shares 160,682	–	Same as above
Total number of shares issued	92,349,082	–	–
Voting rights held by all shareholders	–	921,619	–

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 31 treasury shares held by the Company.

(ii) Treasury Shares

As of December 31, 2023

Name of shareholder	Address of shareholder	Number of shares held in own name (shares)	Number of shares held in others' names (shares)	Total number of shares held (shares)	Percentage against total shares issued (%)
(Treasury shares) EBARA CORPORATION	11-1, Haneda Asahi-cho, Ota-ku, Tokyo	26,500	—	26,500	0.03
Total	–	26,500	—	26,500	0.03

2. Acquisition of Treasury Shares

Class of Shares:

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

(1) Acquisition by Resolution of General Meeting of Shareholders

Not applicable.

(2) Acquisition by Resolution of Board of Directors

Not applicable.

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

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

Position	Number of shares (shares)	Total value (yen)
Treasury shares acquired during the fiscal year ended December 31, 2023	1,830	11,637,228
Treasury shares acquired during the period from January 1, 2024 until the filing date of this report	64	615,248

Note: The number of treasury shares acquired during the period from January 1, 2024 until the filing date of this report does not include shares less than one unit purchased during the period from March 1, 2024 to the filing date of this 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, 2023	279	–
Treasury shares acquired during the period from January 1, 2024 until the filing date of this report	156	–

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, 2023		From January 1, 2024 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	–	–	–	–
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)	–	–	–	–
Treasury shares held	26,531	–	26,751	–

Note: The number of treasury shares held during the period from January 1, 2024 until the filing date of this report does not include shares less than one unit purchased or sold during the period from March 1, 2024 to the filing date of this Securities Report.

3. Dividend Policy

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

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

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

Dividends of surplus for the fiscal year ended December 31, 2023 were as follows:

Resolution date	Total amount of dividends (millions of yen)	Dividends per share (yen)
August 14, 2023 Board of Directors Meeting	9,000	97.50
March 27, 2024 Ordinary General Meeting of Shareholders	12,140	131.50

4. Corporate Governance

(1) Overview of Corporate Governance

Basic views on corporate governance

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

EBARA Way

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

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

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

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

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

(i) Corporate Governance System

i) Overview of Corporate Governance System

Structure of organization

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

<Supervisory>

Board of Directors

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

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

As of March 28, 2024, the Board of Directors comprises 10 Directors, seven of whom are Independent Directors (including three 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. During the fiscal year ended December 31, 2023, the Company held 14 Board of Directors meetings. The matters discussed and attendance are as follows.

<<Matters discussed during the fiscal year ended December 31, 2023>>

- Monitoring and following up on progress with the long-term vision and the medium-term management plan
- Verifying effects and issues following the transition to a major market-based organization
- Responses to and consideration of medium- to long-term sustainability issues and ESG management (human resource development, diversity, equity and inclusion (DE&I), human rights due diligence (DD) in the supply chain, carbon neutrality, measures for information disclosure based on TCFD recommendations, etc.)
- Verification of benefits and problems related to ensuring an advanced and efficient management infrastructure (effects and issues of the CxO system, measures to enhance Group governance, introduction of ERP, introduction of Global HCM (Human Capital Management), etc.)
- The development of new businesses and company-wide marketing activities
- Formulation of the annual management plan, setting KPIs for each business unit
- Evaluation of the effectiveness of the Board of Directors and following up on feedback

<<Attendance during the fiscal year ended December 31, 2023>>

100% (14/14): Toichi Maeda, Masao Asami, Hajime Sawabe, Hiroshi Oeda, Junko Nishiyama, Mie Fujimoto, Hisae Kitayama, Akihiko Nagamine, and Takuya Shimamura

100% (10/10): Teiji Koge and Tsuyoshi Numagami

(Notes)

1. Eight Directors, namely Hajime Sawabe, Hiroshi Oeda, Junko Nishiyama, Mie Fujimoto, Hisae Kitayama, Takuya Shimamura, Teiji Koge, and Tsuyoshi Numagami, are Independent Directors.
2. As Directors Teiji Koge and Tsuyoshi Numagami were newly elected and assumed office as Director at the 158th Ordinary General Meeting of Shareholders held on March 29, 2023 and the Board of Directors meeting held on the same date, their attendance to the Board of Directors meetings held since the same date is provided above.

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 28, 2024, the Nomination Committee comprises two Independent Directors (Teiji Koge and Hiroshi Oeda) and one Non-executive Inside Director (Toichi Maeda). Teiji Koge, an Independent Director, serves as Chairperson of the Nomination Committee. During the fiscal year ended December 31, 2023, the Company held 17 Nomination Committee meetings. The matters discussed and attendance are as follows.

<<Matters discussed during the fiscal year ended December 31, 2023>>

- The implementation and monitoring of executive development and selection programs
- Succession plans for Directors
- Deliberations regarding candidates for Directors
- Deliberations regarding candidates for Executive Officers

<<Attendance during the fiscal year ended December 31, 2023>>

100% (17/17): Hajime Sawabe, Hiroshi Oeda, and Toichi Maeda

100% (12/12): Teiji Koge

(Note)

1. As Director Teiji Koge was newly elected and assumed office as Director and Nomination Committee member at the 158th Ordinary General Meeting of Shareholders held on March 29, 2023 and the Board of Directors meeting held on the same date, his attendance at the Nomination Committee meetings held on and after the same date is provided above.

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 28, 2024, the Compensation Committee comprises three Independent Directors (Mie Fujimoto, Takuya Shimamura, and Tsuyoshi Numagami). Mie Fujimoto, an Independent Director, serves as Chairperson of the Compensation Committee. During the fiscal year ended December 31, 2023, the Company held 14 Compensation Committee meetings. The matters discussed and attendance are as follows:

<<Matters discussed during the fiscal year ended December 31, 2023>>

- Compensation systems for Directors and Executive Officers
- Individual compensation for Directors and Executive Officers
- Short-term performance-linked compensation based on the performance evaluation results of Executive Officers
- Review of long-term incentives under E-Plan 2025

<<Attendance during the fiscal year ended December 31, 2023>>

100% (14/14): Mie Fujimoto, Junko Nishiyama, and Takuya Shimamura

Audit Committee

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

As of March 28, 2024, the Audit Committee comprises two Independent Directors (Hisae Kitayama and Junko Nishiyama) and one Inside Director (Akihiko Nagamine). Hisae Kitayama, an Independent Director, serves as Chairperson of the Audit Committee. Members of the Audit Committee include, Hisae Kitayama, a certified public accountant, Junko Nishiyama, who engages in the audit of company-wide businesses as a full-time auditor at a listed company representing the healthcare industry, and Akihiko Nagamine, a full-time Member of the Audit Committee, 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. During the fiscal year ended December 31, 2023, the Company held 23 Audit Committee meetings. The matters discussed and attendance are as follows:

<<Matters discussed during the fiscal year ended December 31, 2023>>

- Audits of the execution of duties by Executive Officers, etc., and compliance with laws and regulations
- Audits of the development and operation of Group internal controls related to the Companies Act and Financial Instruments and Exchange Act
- Coordination with the Independent Auditor and Internal Audit Division, the establishment of a three-way audit system
- The establishment of operations under IFRS, the appropriateness of accounting treatments of important accounting matters
- The establishment of a governance system for business execution under the five-company system by target market, progress with E-Plan 2025, our medium-term management plan
- The development and operation of governance and internal controls at subsidiaries, including small overseas business locations and companies acquired via M&A, the development and operation of reporting lines between parent company and subsidiaries, business units and the corporate sector, including new cross-departmental functions (CxO system)
- The establishment and operation of whistleblowing contacts, ensuring the effectiveness of responses to whistleblowing cases

<<Attendance during the fiscal year ended December 31, 2023>>

100% (23/23): Hisae Kitayama and Akihiko Nagamine

100% (15/15): Tsuyoshi Numagami

(Note)

1. As Director Tsuyoshi Numagami was newly elected and assumed office as Director and Audit Committee member at the 158th Ordinary General Meeting of Shareholders held on March 29, 2023 and the Board of Directors meeting held on the same date, his attendance to Audit Committee meetings held since the same date is provided above.

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 28, 2024, Teiji Koge serves as Lead Independent Director. During the fiscal year ended December 31, 2023, the Company held 13 Executive Sessions. The matters discussed and attendance are as follows:

<<Matters discussed during the fiscal year ended December 31, 2023>>

- Sharing agenda items for the Board of Directors in advance
- Following up on evaluations of the effectiveness of the Board of Directors and initiatives for the next fiscal year
- Monitoring progress with the long-term vision and the medium-term management plan
- Verifying effects and issues of transitioning to a major market-based organization (strategies to increase market share overseas, etc.)
- Sustainability issues (personnel system, progress with efforts to promote the active participation and advancement of women)

<<Attendance during the fiscal year ended December 31, 2023>>

100% (13/13): Hajime Sawabe, Hiroshi Oeda, Junko Nishiyama, Mie Fujimoto, Hisae Kitayama, and Takuya Shimamura

100% (10/10): Teiji Koge and Tsuyoshi Numagami

(Note)

1. As Directors Teiji Koge and Tsuyoshi Numagami were newly elected and assumed office as Director at the 158th Ordinary General Meeting of Shareholders held on March 29, 2023 and the Board of Directors meeting held on the same date, their attendance at Executive Session meetings held on and after the same date is provided above.

<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 28, 2024, there are 12 Executive Officers. The Company is considering appointment of female Executive Officers in the future from the standpoint of diversity.

Meeting bodies for business execution

a. Management Meeting

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

b. Management Planning Committee

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

c. Sustainability Committee

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

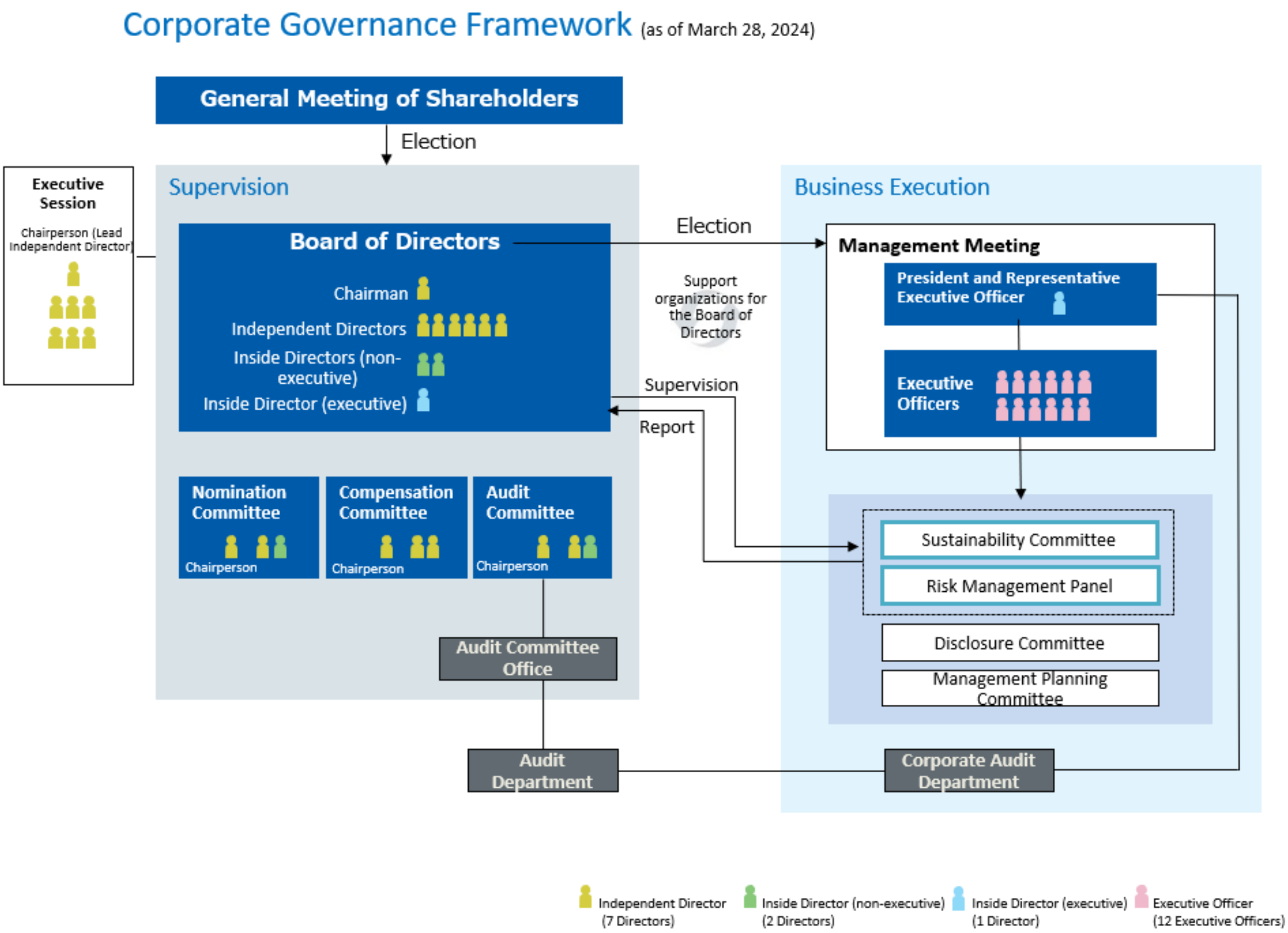
d. Risk Management Panel

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

e. Disclosure Committee

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

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



ii) Reasons for Adopting This System

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

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

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

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

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

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

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

iii) Outline of the Contents of the Liability Limitation Agreement

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

iv) Overview of the Directors and Officers Liability Insurance Contract

a. Insured Parties

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

b. Overview of the Insurance Contract

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

v) Status of Development and Operation of Internal Control System

An overview of the content resolved by the Company in the Board of Directors as a system for ensuring appropriate operations (basic policy) and the state of operation of the system for fiscal year 2023 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 2023, four meetings of the committee were held in the fiscal year under review.

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

5) The EBARA Group Compliance Network periodically holds meetings in accordance with the "Regulations for the Operation of the EBARA Group Compliance Network" to share compliance information between the Company and its subsidiaries. Overseas, Compliance Network meetings are periodically held for Chinese subsidiaries, and Network meetings with six subsidiaries in Vietnam, Thailand, UAE, South Korea, and Taiwan were also held in fiscal year 2023.

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

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

[Basic Approach]

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

[Development and Operation]

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

2) The "Five Principles of EBARA Group on the Handling of 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 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 2023, a total of eight meetings were held.
4) 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 2023, 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 2023, 21 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 16 employees were mainly engaged in the internal audit division or as auditors of subsidiaries and associates, and were concurrently employed by the Audit Committee Office as assistant employees. The assistant employees of the Audit Committee may also serve as auditors of subsidiaries and associates for the purpose of ensuring the internal control of the corporate group.

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

[Basic Approach]

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

2) Full-time assistant employees shall not concurrently perform duties related to the execution of the duties of the executive officers of the Company, and the independence of the assistant employees to the Audit Committee from the executive officers shall be ensured.

3) In the case that instructions from the Audit Committee conflict with instructions from the Executive Officers or the general manager of the department in which the concurrent assistant employees serve, the internal rules stipulate that the instructions from the Audit Committee shall take precedence, thereby ensuring the effectiveness of the Audit Committee’s instructions.

4) With the prior consent of the Audit Committee, assistant employees to the Audit Committee are engaged by the auditors of subsidiaries and associates.

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

[Development and Operation]

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

2) Full-time assistant employees to the Audit Committee are not concurrently engaged in business operations concerning the execution of duties by Executive Officers of the Company. Assistant employees to the Audit Committee act under the instruction of the Audit Committee, thereby ensuring the effectiveness of instructions of the Audit Committee.

3) In case the instructions from the Audit Committee conflict with the instructions from the Executive Officers or the general manager of the department to which they are concurrently assigned, the internal rules stipulate that the instructions from the Audit Committee shall take precedence, thereby ensuring the effectiveness of the instructions from the Audit Committee.
4) With the prior consent of the Audit Committee, assistant employees to the Audit Committee are engaged by the auditors of subsidiaries and associates.
5) Personnel transfer, appraisal, and the like of the assistant employees to the Audit Committee are determined upon obtaining the consent of the Audit Committee.

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

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

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

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

[Basic Approach]

1) The Group ensures the effectiveness of audits by exchanging opinions and collaborating as necessary with the departments in charge of Internal Control, Risk Management and Compliance, and the Internal Audit Division as well as the Corporate Auditors and the Audit Committee of subsidiaries and associates.
2) In case of request by the Audit Committee, the head or a member of the Internal Audit Division or Corporate Auditors of subsidiaries and associates shall serve concurrently in a department under the control of the Audit Committee. In addition, candidates for Corporate Auditors of subsidiaries and associates shall be determined with the consent of the Audit Committee.
3) The Group establishes a policy concerning the handling of expenses and debts arising from the execution of duties by the Audit Committee and ensure that the Audit Committee's audits are conducted effectively.

[Development and Operation]

1) The President, Representative Executive Officer and Executive Officers in charge of the Building Service & Industrial, Energy, Infrastructure, Environmental Solutions, and Precision Machinery Companies regularly exchange information and opinions with the Audit Committee.
2) Departments responsible for internal controls, risk management, and compliance, the Internal Audit Division, and corporate auditor of subsidiaries and associates regularly exchange information and opinions with the Audit Committee and also exchange information on important matters as needed in an effort to promote collaboration.
3) At the request of the Audit Committee, the head of the Internal Audit Division or a member of the division, or a corporate auditor of subsidiaries and associates, concurrently serves in a department established under the control of the Audit Committee. In addition, when nominating candidates for corporate auditors of subsidiaries and associates, decisions are made only after obtaining the consent of the Audit Committee.
4) The Company has established a policy regarding the handling of expenses and debts arising from the execution of duties by the Audit Committee to ensure that the Audit Committee's audits are conducted effectively.

l. Systems for Ensuring the Credibility of Financial Reports

[Basic Approach]

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

[Development and Operation]

1) To ensure the credibility of consolidated financial reports, the "Standards for the Enforcement of Internal Controls over Financial Reporting" have been established for the purpose of maintaining and operating internal controls based on the Financial Instruments and Exchange Act, and their effectiveness is assessed every fiscal year.
2) In the assessment, the scope of assessment is set each fiscal year in consideration of the impact on financial reporting, management importance, etc., and the assessment is conducted by an assessment team independent of operations to improve and promote internal control.

vi) Development of Risk Management System

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

(ii) Quorum of Directors

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

(iii) Requirements for Resolution for Election of Directors

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

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

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

i) Exemption from Director and Executive Officer Liability

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

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

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

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

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

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 Company has stipulated in the Articles of Incorporation that 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: 18, Female: 3 (Ratio of female officers: 14.3%)

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 March 2024	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) Outside Director, KITZ Corporation (to present)	(Note 2)	385
Director President and Representative Executive Officer CEO & COO, President, Precision Machinery Company	Masao Asami	April 7, 1960	April 1986 April 2010 April 2011 April 2014 June 2015 April 2016 March 2019 March 2019 January 2023 January 2023 January 2024	Joined the Company Executive Officer of the Company Division Executive, Sales and Marketing Division, Precision Machinery Company of the Company Managing Executive Officer of the Company Managing Executive Officer of the Company (Change in Japanese only; English unchanged) President, Precision Machinery Company of the Company Director of the Company (to present) President, Representative Executive Officer of the Company (to present) CEO of the Company (to present) COO of the Company (to present) President, Precision Machinery Company of the Company (to present)	(Note 2)	504

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 June 2009 April 2011 April 2015 April 2017 June 2017 June 2017 March 2018 March 2018 June 2018 March 2019 June 2019 March 2020 December 2020 March 2022 March 2022 June 2023	Joined Nisshin Flour Milling Inc. (currently Nisshin Seifun Group Inc.) Director, Nisshin Seifun Group Inc. Director and President, Nisshin Seifun Group Inc. Member of Management Council, Hitotsubashi University Director and Executive Adviser, Nisshin Seifun Group Inc. Corporate Special Adviser, Nisshin Seifun Group Inc. (to present) President, Seifun Kaikan Inc. (Retired in June 2022) Director of the Company (to present) Member of the Nomination Committee of the Company Outside Director, SEKISUI CHEMICAL CO., LTD. (to present) Chairperson of the Nomination Committee of the Company President, Hitotsubashi University Koenkai (to present) Lead Independent Director of the Company Vice-Chairperson, The Japanese National Commission for UNESCO (Retired in November 2023) Chairman of the Board of Directors of the Company (to present) Member of the Nomination Committee of the Company (to present) Outside Director, JAPAN POST HOLDINGS Co., Ltd. (to present)	(Note 2)	30
Director Member of the Audit 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 March 2024	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. (Retired in June 2023) Outside Auditor, TODA CORPORATION (to present) Member of the Compensation Committee of the Company Member of the Audit Committee of the Company (to present)	(Note 2)	27

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Director Member of the Compensation Committee	Mie Fujimoto	August 17, 1967	April 1993 April 1993 June 2009 April 2015 June 2015 June 2016 June 2016 March 2019 March 2020 March 2020 March 2022	Registered as an attorney at law (to present) Joined New Tokyo Sogoh Law Office Outside Corporate Auditor, Kuraray Co., Ltd. Joined TMI Associates (to present) Outside Audit & Supervisory Board Member, SEIKAGAKU CORPORATION (Retired in June 2023) Outside Audit & Supervisory Board Member, Tokyo Broadcasting System Holdings, Inc. (currently TBS Holdings, Inc.) (to present) (Audit & Supervisory Board Member, Tokyo Broadcasting System Television, Inc.) (to present) Outside Director, Kuraray Co., Ltd. (Retired in March 2020) Director of the Company (to present) Member of the Compensation Committee of the Company Chairperson of the Compensation Committee of the Company (to present)	(Note 2)	24
Director Member of the Audit Committee	Hisae Kitayama	August 30, 1957	October 1982 March 1986 May 1999 July 2013 June 2019 July 2019 July 2019 June 2020 July 2020 March 2021 March 2021 April 2021 June 2022 March 2023	Joined Asahi Accounting Company (currently KPMG AZSA LLC) Registered as a certified public accountant (to present) Partner, Asahi Accounting Company (currently KPMG AZSA LLC) Managing Executive Director, KPMG AZSA LLC Chairman, Kinki Chapter of Japanese Institute of Certified Public Accountants (Retired in June 2022) Deputy Chairman, Japanese Institute of Certified Public Accountants (Retired in July 2022) Senior Executive Director, KPMG AZSA LLC (Retired in June 2020) Outside Director, Tsubakimoto Chain Co. (to present) Opened Kitayama Public Accounting Office (to present) Director of the Company (to present) Member of the Audit Committee of the Company Specially Appointed Professor, Graduate School of Social Sciences, University of Hyogo (to present) Outside Audit & Supervisory Board Member, Daicel Corporation (to present) Chairperson of the Audit Committee of the Company (to present)	(Note 2)	19

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
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 of the Company 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)	181
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 June 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) Outside Audit & Supervisory Board Member, JFE Holdings, Inc. (to present)	(Note 2)	12

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Director Member of the Nomination Committee	Teiji Koge	November 14, 1953	April 1976	Joined SEKISUI CHEMICAL CO., LTD.	(Note 2)	6
			June 2005	Director, SEKISUI CHEMICAL CO., LTD. President, Nagoya Sekisui Heim Co., Ltd.		
			October 2005	Director, Head of President's Office of Housing Company, SEKISUI CHEMICAL CO., LTD.		
			February 2008	Director, President of Housing Company, SEKISUI CHEMICAL CO., LTD.		
			April 2008	Director, Managing Executive Officer, President of Housing Company, SEKISUI CHEMICAL CO., LTD.		
			April 2009	Director, Senior Managing Executive Officer, President of Housing Company, SEKISUI CHEMICAL CO., LTD.		
			March 2014	Director, Senior Managing Executive Officer, Head of CSR Department and Head of Corporate Communication Department, SEKISUI CHEMICAL CO., LTD.		
			March 2015	President and Representative Director, Chief Executive Officer, SEKISUI CHEMICAL CO., LTD.		
			March 2020	Chairman of the Board and Representative Director, SEKISUI CHEMICAL CO., LTD.		
			June 2022	Chairman of the Board and Director, SEKISUI CHEMICAL CO., LTD. (to present)		
			March 2023	Director of the Company (to present)		
			March 2023	Member of the Nomination Committee of the Company		
			March 2024	Lead Independent Director of the Company (to present)		
			March 2024	Chairperson of the Nomination Committee of the Company (to present)		
Director Member of the Compensation Committee	Tsuyoshi Numagami	March 27, 1960	April 2000	Professor, Graduate School of Commerce and Management, Hitotsubashi University	(Note 2)	6
			January 2011	Dean of Graduate School of Commerce and Management, Hitotsubashi University		
			December 2014	Board Member and Executive Vice President, Hitotsubashi University		
			April 2018	Professor, Graduate School of Business Administration, Hitotsubashi University (Retired in March 2023)		
			June 2018	Outside Audit & Supervisory Board Member, JFE Holdings, Inc. (to present)		
			April 2021	Professor, School of Energy and Informatics, Tokyo Institute of Technology (Retired in March 2023)		
			June 2022	Outside Director, Tokyo Century Corporation (to present)		
			March 2023	Director of the Company (to present)		
			March 2023	Member of the Audit Committee of the Company		
			April 2023	Professor Emeritus, Hitotsubashi University (to present)		
			April 2023	Professor, Institute for Business and Finance, Waseda University (to present)		
			March 2024	Member of the Compensation Committee of the Company (to present)		
Total						1,197

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

2. The terms of office of the Directors shall be from the conclusion of the Ordinary General Meeting of Shareholders for the

fiscal year ended December 31, 2023 to the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ending December 31, 2024.

3. The Company is a Company with Three Board Committees. The Company's committees are as follows:
   Nomination Committee: Teiji Koge (Chairperson), Hiroshi Oeda, and Toichi Maeda
   Compensation Committee: Mie Fujimoto (Chairperson), Takuya Shimamura, and Tsuyoshi Numagami
   Audit Committee: Hisae Kitayama (Chairperson), Junko Nishiyama, 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, Representative Executive Officer, CEO & COO, and President, Precision Machinery Company	Masao Asami	April 7, 1960	See "i) Directors."		(Note)	See "i) Directors."
Executive Officer President, Building Service & Industrial Company	Shu Nagata	March 17, 1968	April 1990 October 2008 April 2017 March 2018 March 2018 March 2019 January 2020 March 2022 March 2022 January 2023	Joined the Company Ebara Pumps Europe S.p.A. Managing Director General Manager, Global Sales and Marketing Department, Standard Pump Business Division, Fluid Machinery & Systems Company of the Company Executive Officer of the Company (to present) Division Executive, Corporate Strategic Planning Division of the Company Division Executive, Human Resources Division of the Company Division Executive, Corporate Strategic Planning and Human Resources Division of the Company President, Fluid Machinery & Systems Company of the Company Chillers Business of Fluid Machinery & Systems Company of the Company President, Building Service & Industrial Company of the Company (to present)	(Note)	168
Executive Officer President, Energy Company, CEO, Elliott Company, Chairman, EBARA GREAT PUMPS CO., LTD., and Chairman & CEO, Ebara Elliott Energy Holdings, Inc.	Takanobu Miyaki	September 22, 1972	April 1996 March 2020 March 2020 March 2021 March 2022 March 2022 March 2022 March 2022 January 2023 January 2023 January 2023	Joined the Company Vice President, Elliott Group Holdings, Inc. Vice President, Elliott Company Director, Elliott Group Holdings, Inc. Director and CEO, Elliott Group Holdings, Inc. CEO, Elliott Company (to present) Executive Officer of the Company (to present) Responsible for Compressors and Turbines Business, Fluid Machinery & Systems Company President, Energy Company of the Company (to present) Chairman, EBARA GREAT PUMPS CO., LTD. (to present) Chairman & CEO, Ebara Elliott Energy Holdings, Inc. (to present)	(Note)	-
Executive Officer President, Infrastructure Company	Teruyuki Ota	April 26, 1971	April 1994 April 2017 April 2021 March 2022 March 2022 January 2023	Joined the Company General Manager, Recruiting and HR Development Department, Human Resources, Legal and General Affairs Division General Manager, Infrastructure Systems Sales Department, System Business Division, Fluid Machinery Systems Company of the Company Executive Officer of the Company (to present) Division Executive, System Business Division, Fluid Machinery Systems Company of the Company President, Infrastructure Company of the Company (to present)	(Note)	32

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Executive Officer President, Environmental Solutions Company, and President and Representative Director, Ebara Environmental Plant Co., Ltd.	Hideki Yamada	May 31, 1961	April 1985 April 2013 April 2015 April 2015 April 2016 January 2019 October 2019 October 2019 January 2020 March 2020 January 2023 January 2023	Joined the Company Executive Officer of the Company Deputy Division Executive, China and East Asia Department, Strategy and Technology Management Division, Fluid Machinery & Systems Company of the Company Chairman, EBARA GREAT PUMPS CO., LTD. Division Executive, China and East Asia Department, Strategy and Technology Management Division, Fluid Machinery & Systems Company of the Company Division Executive, Industrial Pump Division, Fluid Machinery & Systems Company Managing Executive Officer of the Company Division Executive, Custom Pump Division, Fluid Machinery & Systems Company Chairman, EBARA MACHINERY ZIBO CO., LTD. Executive Officer of the Company (to present) President, Environmental Solutions Company (to present) President and Representative Director of Ebara Environmental Plant Co., Ltd. (to present)	(Note)	153
Executive Officer Division Executive, Equipment Division, Precision Machinery Company	Isao Nambu	April 14, 1974	April 1997 January 2020 January 2022 March 2022 January 2023	Joined the Company Division Executive, Marketing Division of the Company Division Executive, Equipment Division, Precision Machinery Company of the Company Executive Officer of the Company (to present) Division Executive, Equipment Division, Precision Machinery Company of the Company (Change in Japanese only; English unchanged) (to present)	(Note)	76
Executive Officer Division Executive, Components Business Division, Precision Machinery Company of the Company, Chairman, Ebara Precision Machinery Taiwan Incorporated, and Chairman, HEFEI EBARA PRECISION MACHINERY CO., LTD.	Seiichi Tsuyuki	April 20, 1971	April 1992 April 2021 January 2022 March 2022 January 2023 January 2024	Joined the Company Chairman, Ebara Precision Machinery Taiwan Incorporated (to present) Division Executive, Components Business Division, Precision Machinery Company of the Company Executive Officer of the Company (to present) Division Executive, Components Business Division, Precision Machinery Company of the Company (to present) Chairman, HEFEI EBARA PRECISION MACHINERY CO., LTD. (to present)	(Note)	38

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Executive Officer CFO (in charge of Corporate Strategic Planning / Finance / Accounting / Tax Affairs), and Chairman, EBARA (CHINA) CO., LTD.	Shugo Hosoda	September 1, 1966	October 1993 April 2015 April 2016 April 2016 January 2018 January 2018 March 2021 March 2021 March 2022 January 2023 December 2023 January 2024	Joined the Company Division Executive, Governance Promotion Division of the Company Deputy Vice President, Elliott Group Holdings, Inc. Deputy Vice President, Elliott Company Vice President, Elliott Group Holdings, Inc. Vice President, Elliott Company Executive Officer of the Company (to present) Division Executive, Finance and Accounting Division of the Company Division Executive, Corporate Strategic Planning, Finance and Accounting Division of the Company Division Executive, Corporate Strategic Planning, Finance and Accounting Division & CFO of the Company Chairman, EBARA (CHINA) CO., LTD. (to present) CFO (in charge of Corporate Strategic Planning / Finance / Accounting / Tax Affairs) of the Company (to present)	(Note)	121
Executive Officer CHRO (in charge of Human Resources / Safety / Labor Affairs / Human Resource Development) and Division Executive, Human Resources Division	Yoji Sato	July 18, 1964	April 1987 April 2011 April 2012 April 2017 January 2019 March 2022 March 2022 January 2023 January 2024	Joined the Company Division Executive, Planning Division, Ebara Environmental Plant Co., Ltd. General Manager, EBARA QINGDAO CO., LTD. Division Executive, Sales Division, Ebara Environmental Plant Co., Ltd. Director, Ebara Environmental Plant Co., Ltd. Executive Officer of the Company (to present) Division Executive, Human Resources Division of the Company Division Executive, Human Resources Division & CHRO of the Company CHRO (in charge of Human Resources / Safety / Labor Affairs / Human Resource Development) and Division Executive, Human Resources Division of the Company (to present)	(Note)	83

Position title	Name	Date of birth	Career summary		Term of office	Number of shares held (hundreds of shares)
Executive Officer CRO (in charge of Risk Management / Legal / Internal Control)	Toru Nakayama	June 5, 1959	September 2014	Joined the Company	(Note)	113
			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 of the Company		
			January 2023	Division Executive, Legal, Internal Control, Risk Management and General Affairs Division & CRO of the Company		
			January 2024	CRO (in charge of Risk Management / Legal / Internal Control) of the Company (to present)		
Executive Officer CIO (in charge of Information & Communication System) and 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)	88
			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		
			March 2020	Executive Officer of the Company (to present)		
			January 2023	Division Executive, Information & Communication System Division & CIO of the Company		
			January 2024	CIO (in charge of Information & Communication System) and Division Executive, Information & Communication System Division of the Company (to present)		
Executive Officer CTO (in charge of Technologies / R&D / Intellectual Property) and Division Executive, Technologies & Intellectual Property Division	Norihisa Miyoshi	December 18, 1962	April 1987	Joined the Company	(Note)	78
			April 2016	Division Executive, Basic Technology Division, Ebara Environmental Plant Co., Ltd.		
			January 2019	Division Executive, Engineering Division, Ebara Environmental Plant Co., Ltd.		
			January 2022	President and Representative Director of Ebara Environmental Plant Co., Ltd.		
			January 2023	Division Executive, Technologies, R&D & Intellectual Property Division of the Company		
			March 2023	Executive Officer of the Company (to present)		
			March 2023	Division Executive, Technologies, R&D & Intellectual Property Division & CTO of the Company		
			January 2024	CTO (in charge of Technologies / R&D / Intellectual Property) and Division Executive, Technologies & Intellectual Property Division of the Company (to present)		
Total						953

Note: The terms of office of the Executive Officers shall be from the conclusion of the first meeting of the Board of Directors held after the conclusion of the Ordinary General Meeting of Shareholders for the fiscal year ended December 31, 2023 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, 2024.

(ii) Independent Directors and Other Officers

The Company currently has seven Independent Directors, who constitute a majority of all 10 Directors. There are no special interests between any of those Independent Directors and the Company. 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) Overview of Corporate Governance System, <Supervisory>, Audit Committee."

ii) Activities of the Audit Committee

During the fiscal year ended December 31, 2023, the Company held 23 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	23 (100%)
Independent (Part-time) Audit Committee member	Hisae Kitayama	23 (100%)
	Tsuyoshi Numagami	15 (100%)

Note: As Tsuyoshi Numagami was newly elected and assumed office as Director and Audit Committee member at the 158th Ordinary General Meeting of Shareholders held on March 29, 2023 and the Board of Directors meeting held on the same date, his attendance to Audit Committee meetings held since the same date is provided above.

The Company defines major areas assessed by the Audit Committee, for example, items requiring intensive auditing alongside items audited continuously every fiscal year. Specific issues discussed by the Audit Committee during the fiscal year under review include the following.

- Audits of the execution of duties by Executive Officers, etc., and compliance with laws and regulations
- Audits of the development and operation of Group internal controls related to the Companies Act and Financial Instruments and Exchange Act
- Coordination with the Independent Auditor and Internal Audit Division, the establishment of a three-way audit system
- The establishment of operations under IFRS, the appropriateness of accounting treatments of important accounting matters
- The establishment of a governance system for business execution under the five-company system by target market, progress with E-Plan 2025, our medium-term management plan
- The development and operation of governance and internal controls at subsidiaries, including small overseas business locations and companies acquired via M&A, the development and operation of reporting lines between parent company and subsidiaries, business units and the corporate sector, including new cross-departmental functions (CxO system)
- The establishment and operation of whistleblowing contacts, ensuring the effectiveness of responses to whistleblowing cases

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 team, including triannual hearings with the President and Representative Executive Officer, and annual hearing from each Executive Officer in charge of Building Service & Industrial, Energy, Infrastructure, Environmental Solutions, 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 team and audits by the Independent Auditor to confirm that internal control systems are functioning effectively at the Company and across the Group. In fiscal 2023, the Audit Committee focused on on-site audits, actively conducted fieldwork and observed audits by the Independent Auditor, while also utilizing remote auditing methods including interview surveys using a web conferencing system, which had been used during the COVID-19 pandemic.
- The Group Auditor Conferences are held twice a year and attended by the auditors of subsidiaries and associates, and receive business reports from subsidiaries and associates, if necessary.

(ii) Internal Audit

The Company established Corporate Audit Department (25 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, which was approved by the President and Representative Executive Officer, 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 General Manager of the Corporate Audit Department submits internal audit reports to the President and Representative Executive Officer and sends copies to the Chairperson of the Audit Committee. Departments and subsidiaries subject to audits are asked to respond to the issues pointed out and correct these problems, and their progress on this front is monitored.

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 the Independent 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. In the fiscal year ended December 31, 2023, the Company held 3 three-way audit meetings among the Corporate Audit Department, the Audit Committee, and the Independent Auditor.

(iii) Accounting Audit

i) Name of Audit Firm

Deloitte Touche Tohmatsu LLC

ii) Period of Continuous Auditing

1 fiscal year

iii) Certified Public Accountants Who Executed the Audit Duties

Yoshiaki Kitamura
Takuya Sumita
Akiko Fujiharu

iv) Composition of Assistants to Audit Work

26 certified public accountants

67 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. In accordance with its policy of selection and evaluation of the Independent Auditor, the Audit Committee selected Deloitte Touche Tohmatsu LLC as the Independent Auditor for the 159th fiscal year ended December 31, 2023. See "vi) Change of Audit Firm" below for details.

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 10 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 20 years in succession.

vi) Change of Audit Firm

The Company's audit firm has changed as follows:

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

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

The matters stated in the extraordinary report are as follows:

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

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

Deloitte Touche Tohmatsu LLC

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

Ernst & Young ShinNihon LLC

2. Date of change

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

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

June 27, 2008

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

Not applicable

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

The Company's Audit Committee has a policy of selection and evaluation of the Independent Auditor, which stipulates to conduct a tender to appoint the candidates for the next Independent Auditor regardless of the assessment every year if it serves for ten years in succession. If the reappointed Independent Auditor serves for another five years in succession, another tender shall be conducted. The same Independent Auditor may only serve for a period up to 20 years in succession.

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

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

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

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

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

(2) Opinion of the Company's Audit Committee

The Company's Audit Committee believes that the change in the Company's certified public accountant, etc. to Deloitte Touche Tohmatsu LLC appropriate and in line with the circumstances and result of the review.

(iv) Audit Compensation

i) Compensation Paid to Certified Public Accountant, etc.

Category	Fiscal year ended December 31, 2022		Fiscal year ended December 31, 2023	
	Audit fees (millions of yen)	Non-audit fees (millions of yen)	Audit fees (millions of yen)	Non-audit fees (millions of yen)
Reporting company	200	2	171	—
Consolidated subsidiaries	36	—	51	—
Total	236	2	222	—

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

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

Category	Fiscal year ended December 31, 2022		Fiscal year ended December 31, 2023	
	Audit fees (millions of yen)	Non-audit fees (millions of yen)	Audit fees (millions of yen)	Non-audit fees (millions of yen)
Reporting company	–	–	–	1
Consolidated subsidiaries	383	72	450	85
Total	383	72	450	86

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

iii) Other Important Audit Fees

Not applicable.

iv) Policy for Determining Audit Compensation

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

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

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

(4) Compensation for Officers

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

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

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

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

a. Compensation for Directors

(a) Objectives and Basic Policy of the Compensation System

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

(b) Compensation System

i) Compensation System for Non-executive Directors

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

ii) Executive Directors

The Company pays compensation as Executive Officer to Executive Director (President and Representative Executive Officer) concurrently serving as Executive Officer and does not pay compensation as Director.

(c) Combination of Compensation

The combination of Directors’ compensation is as follows:

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

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

b. Compensation for Executive Officers

(a) Objectives and Basic Policy of the Compensation System

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

(b) Compensation System

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

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

*1. ESG evaluation organization for climate change strategies and initiatives to reduce greenhouse gas emissions

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

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

(c) Combination of Compensation

The combination of Executive Officers’ compensation is as follows:

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

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

(d) Compensation Levels

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

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

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

The Compensation Policy for officers, etc. is determined by the Compensation Committee, which consists of three Independent Directors to put greater emphasis on transparency and the importance of an objective viewpoint. Specifically, it appointed 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 2023, the Compensation Committee met 14 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, 2023 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, 2023 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, 2023; 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, 2023 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 2023

Performance indicator	Target for fiscal year 2023	Actual results for fiscal year 2023
Consolidated ROIC	10.4%	12.2%
Consolidated operating profit	¥72.3 billion	¥86.0 billion

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

a. Overview

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

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

(a) Restricted stock compensation

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

(b) Performance-linked stock compensation

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

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

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

Of the long-term incentives, performance-linked stock compensation will be paid at a rate of 0% to 200% based on the level of achievement of the consolidated ROIC target (10.0%) for the fiscal year ending December 31, 2025, the final fiscal year of the medium-term management plan E-Plan 2025.

(iii) Calculation Method of Performance-linked Stock Compensation

i) Overview of the plan

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

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

ii) Calculation method of PSU

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

a. Officers eligible for payment

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

b. Asset paid as PSU

PSU comprises the Company's common shares and money.

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

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

Standard number of unit ((a) below) × payment rate ((b) below) × 60%

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

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

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

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

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

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

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

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

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

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

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

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

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

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

d. Evaluation period

From January 2023 to December 2025

e. Timing of the payment

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

(a) Standard number of unit

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

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

(Note) Mr. Tetsuji Togawa and Mr. Masao Hodai retired from the position of Executive Officer on March 27, 2024. See item "v)-b." below for information on adjustments to the standard number of unit in the event an Executive Officer retires during the subject period.

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

(b) Payment rate

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

Payment rate (%) (Note 1) = Consolidated ROIC (Note 2) × 20－100

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

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

*1 "Interest-bearing debt (the average of beginning and ending balances)" represents the average of the total of the amounts reported in "Bonds, borrowings and lease liabilities" under current liabilities and non-current liabilities in the consolidated statement of financial position of the Company as of December 31, 2022 and 2023.

*2 "Total equity attributable to owners of parent (the average of beginning and ending balances)" represents the average of the total of the amounts reported in "Total equity attributable to owners of parent" in the consolidated statement of financial position of the Company as of December 31, 2022 and 2023.

iii) Payment requirements of PSU

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

iv) Payment Method of PSU by shares

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

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

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

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

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

<The Company>

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In lieu of the Company's common shares paid as PSU by shares and money paid as PSU in money, the amount of money calculated by the formula below (fractions less than ¥100 are rounded off) will be paid to the inheritors of the Executive Officer eligible for payment at the time of retirement.

(Standard number of unit × 50% × Number of months in office during the subject period (Note 1) /36) (Note 2) × Share price at the time of retirement (Note 3)

Notes: 1. Fractions less than a month are counted as 1 month.
2. Less than 1 unit will be rounded down. Also, 1 unit is 100 shares of the Company's common shares.
3. The average share price of the Company's common shares on the Tokyo Stock Exchange for the month prior to the month of retirement

f. In case of organizational restructuring, etc. during the subject period

In case the Company's Board of Directors approves a resolution with regard to a merger, or a stock exchange or stock transfer by which the Company becomes a wholly-owned subsidiary, and the resolution will take effect, in lieu of the Company's common shares paid as PSU by shares and money paid as PSU in money, the amount calculated by the formula below (fractions less than ¥100 are rounded off) will be paid to the Executive Officer eligible for payment on the day before the effective date of the said organizational restructuring.

(Standard number of unit (Note 1) × 50% × Number of months from the start of the subject period until the effective date of the said organizational restructuring /36) (Note 2) (Note 3)× the Company's share price (Note 4)

Notes: 1. The standard number of unit for the Executive Officer eligible for payment who was transferred in relation to a. through d. above will be the standard number of unit adjusted as if no organizational restructuring, etc. had occurred until the end of the subject period.
2. Fractions less than a month are counted as 1 month. As for any retired Executive Officers of the Company not belonging to the Company or subject subsidiary, proportional calculation for the number of months until the effective date of organizational restructuring will not be made.
3. Less than 1 unit will be rounded down. Also, 1 unit is 100 shares of the Company's common shares.
4. The average share price of the Company's common shares on the Tokyo Stock Exchange during the month prior to the month of the Ordinary General Meeting of Shareholders in which the matters related to the said organizational restructuring was approved.

<Ebara Environmental Plant Co., Ltd.>

a. If a Director newly assumes office as President and Representative Director during the subject period

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

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

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

b. In case a Director retires during the subject period

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

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

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

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

c. In case a Director retires due to death during the subject period

In lieu of the Company's common shares paid as PSU by shares and money paid as PSU in money, the amount of money calculated by the formula below (fractions less than ¥100 are rounded off) will be paid to the inheritors of the Director eligible for payment at the time of retirement.

(Standard number of unit × 50% × Number of months in office during the subject period (Note 1) /36) (Note 2) × Share price at the time of retirement (Note 3)

Notes: 1. Fractions less than a month are counted as 1 month.
2. Less than 1 unit will be rounded down. Also, 1 unit is 100 shares of the Company's common shares.
3. The average share price of the Company's common shares on the Tokyo Stock Exchange for the month prior to the month of retirement

d. In case of organizational restructuring, etc. during the subject period

In case the Company's Board of Directors approves a resolution with regard to a merger, or a stock exchange or stock transfer by which the Company becomes a wholly-owned subsidiary, and the resolution will take effect, in lieu of the Company's common shares paid as PSU by shares and money paid as PSU in money, the amount calculated by the formula below (fractions less than ¥100 are rounded off) will be paid to the Director eligible for payment on the day before the effective date of the said organizational restructuring.

(Standard number of unit (Note 1) × 50% × Number of months from the start of the subject period until the effective date of the said organizational restructuring / 36) (Note 2) (Note 3) × the Company's share price (Note 4)

Notes: 1. The standard number of unit for the Director eligible for payment who was transferred in relation to a. through c. above will be the standard number of unit adjusted as if no organizational restructuring, etc. had occurred until the end of the subject period.

2. Fractions less than a month are counted as 1 month. As for newly appointed Directors belonging or not belonging to the Company or subject subsidiary and retired Directors not belonging to the Company or subject subsidiary, proportional calculation for the number of months until the effective date of organizational restructuring will not be made.

3. Less than 1 unit will be rounded down. Also, 1 unit is 100 shares of the Company's common shares.

4. The average share price of the Company's common shares on the Tokyo Stock Exchange during the month prior to the month of the Ordinary General Meeting of Shareholders in which the matters related to the said organizational restructuring was approved.

(iv) Total Amount of Compensation by Category of Position and Type of Compensation, as well as the Number of Eligible Officers

i) Amount of Compensation Paid to Directors and Executive Officers

Category of Position	Total amount of compensation, etc. (millions of yen)	Total amount of compensation, etc. by type of compensation (millions of yen)				Number of eligible officers (persons)
		Basic compensation	Short-term performance-linked compensation	Restricted stock compensation	Performance-linked stock compensation	
Director (excluding Independent Director)	132	100	–	30	1	2
Executive Officer	1,010	384	258	93	274	17
Independent Director	141	114	–	27	–	9

Notes: 1. The above shows the compensation paid to Directors and Executive Officers as of December 31, 2023 according to their term of office for the fiscal year under review, and the compensation paid to one Director who retired at the conclusion of the 158th Ordinary General Meeting of Shareholders held on March 29, 2023 and three Executive Officers who retired at the conclusion of the meeting of the Board of Directors held on the same day, from January 2023 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 ¥131 million (Base compensation: ¥62 million, Short term performance-linked compensation: ¥46 million, and Performance-linked stock compensation: ¥21 million) as compensation that subsidiaries paid to Executive Officers who served concurrently as the officers of the subsidiaries.

4. Short term performance-linked compensation for Executive Officers is linked to the preset individual targets as well as to the company-wide or business-level performance. The achievement rate against the targets is evaluated and the individual amount is determined after deliberations at the Compensation Committee.

5. Short-term performance-linked compensation shown is the total amount of short-term performance-linked compensation for the fiscal year under review (to be paid in March 2024), to Executive Officers in office as of December 31, 2023.

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

7. Performance-linked stock compensation shown represents the portion of performance-linked stock compensation to be paid in May 2026 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 estimated value of the consolidated ROIC in the management plan for the fiscal year ending December 31, 2025, the final fiscal year of the medium-term management plan E-Plan 2025, and adding the difference between the amount recorded in the previous fiscal year and the amount recorded in the fiscal year under review.

8. In addition to the above, ¥35 million was recorded as an expense for the fiscal year under review associated with performance-linked stock compensation under the medium-term management plan E-Plan 2022, which was paid to six Officers who retired on or before December 31, 2022.

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

Name	Total amount of compensation, etc. (millions of yen)	Category of Company	Total amount of compensation, etc. by type of compensation (millions of yen)			
			Basic compensation	Short-term performance-linked compensation	Restricted stock compensation	Performance-linked stock compensation
President and Representative Executive Officer Masao Asami	168	Reporting company	54	37	16	61

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 2024).

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 2026 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 estimated value of the consolidated ROIC in the management plan for the fiscal year ending December 31, 2025, the final fiscal year of the medium-term management plan E-Plan 2025, and adding the difference between the amount recorded in the previous fiscal year and the amount recorded in the fiscal year under review.

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

Not applicable.

(5) Shareholdings

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

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

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

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

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

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

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

Perspectives to verify the rationale for shareholdings:

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

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

As of December 31, 2023 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	23	2,265
Shares other than unlisted shares	–	–

Issues whose number of shares increased during the fiscal year ended December 31, 2023

	Number of issues (Issue)	Total acquisition cost for the shares increased (millions of yen)	Reason for increase in number of shares
Unlisted shares	1	422	Additional investment to strengthen partnerships with venture companies
Shares other than unlisted shares	–	–	–

Issues whose number of shares decreased during the fiscal year ended December 31, 2023

	Number of issues (Issue)	Total selling price for the shares decreased (millions of yen)
Unlisted shares	5	38
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 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, 2023 were audited by Deloitte Touche Tohmatsu LLC, in accordance with the provisions of Article 193-2, Paragraph 1 of the Financial Instruments and Exchange Act.

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

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

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

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

1. Consolidated Financial Statements

(1) Consolidated Financial Statements

(i) Consolidated statement of financial position

(Millions of yen)

	Notes No.	As of December 31, 2022	As of December 31, 2023
Assets			
Current assets			
Cash and cash equivalents	7	116,137	148,059
Trade and other receivables	8, 35	151,665	163,363
Contract assets	28	100,420	99,901
Inventories	9	181,337	200,616
Income taxes receivable		1,137	1,277
Other financial assets	10, 35	3,540	4,357
Other current assets	18	26,456	30,747
Total current assets		580,694	648,323
Non-current assets			
Property, plant and equipment	11, 14	165,715	175,882
Goodwill and intangible assets	12, 14	43,333	50,381
Investments accounted for using equity method	16	7,153	7,192
Deferred tax assets	17	13,720	17,656
Other financial assets	10, 35	6,783	6,015
Other non-current assets	18	10,648	8,447
Total non-current assets		247,354	265,576
Total assets		828,049	913,900

(Millions of yen)

	Notes No.	As of December 31, 2022	As of December 31, 2023
Liabilities and equity			
Liabilities			
Current liabilities			
Trade and other payables	19, 35	195,391	172,368
Contract liabilities	28	63,168	92,918
Bonds, borrowings and lease liabilities	20, 35	46,772	31,953
Income taxes payable		6,140	8,150
Provisions	23	12,760	12,132
Other financial liabilities	21, 35	432	760
Other current liabilities	22	44,411	43,682
Total current liabilities		369,078	361,966
Non-current liabilities			
Bonds, borrowings and lease liabilities	20, 35	72,560	113,296
Retirement benefit liability	24	8,380	7,967
Provisions	23	2,647	2,588
Deferred tax liabilities	17	2,435	2,954
Other financial liabilities	21, 35	144	492
Other non-current liabilities	22	3,076	3,062
Total non-current liabilities		89,245	130,361
Total liabilities		458,323	492,327
Equity			
Share capital	25	79,804	80,489
Capital surplus	25	76,806	76,593
Retained earnings	25	184,995	224,267
Treasury shares	25	(294)	(306)
Other components of equity		18,655	28,830
Total equity attributable to owners of parent		359,966	409,875
Non-controlling interests		9,758	11,697
Total equity		369,725	421,572
Total liabilities and equity		828,049	913,900

(ii) Consolidated statement of income

(Millions of yen)

	Notes No.	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Revenue	28	680,870	759,328
Cost of sales		469,694	516,618
Gross profit		211,175	242,709
Selling, general and administrative expenses	29	137,784	155,847
Other income	30	1,107	2,725
Other expenses	30	3,925	3,562
Operating profit		70,572	86,025
Finance income	32	957	1,643
Finance costs	32	2,762	4,361
Share of profit (loss) of investments accounted for using equity method	16	714	1,425
Profit before tax		69,481	84,733
Income tax expense	17	16,775	20,933
Profit		52,705	63,799
Profit attributable to			
Owners of parent		50,488	60,283
Non-controlling interests		2,217	3,516
Earnings per share			
Basic earnings per share (Yen)	33	548.61	653.64
Diluted earnings per share (Yen)	33	547.34	652.55

(iii) Consolidated statement of comprehensive income

(Millions of yen)

	Notes No.	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Profit		52,705	63,799
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans		1,512	(1,987)
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income		(44)	95
Share of other comprehensive income of investments accounted for using equity method		(9)	55
Total of items that will not be reclassified to profit or loss		1,458	(1,836)
Items that may be reclassified to profit or loss			
Cash flow hedges		(59)	15
Exchange differences on translation of foreign operations		14,497	10,227
Total of items that may be reclassified to profit or loss		14,437	10,242
Total other comprehensive income, net of tax	34	15,896	8,405
Total		68,602	72,205
Comprehensive income attributable to			
Owners of parent		66,019	68,391
Non-controlling interests		2,582	3,814

(iv) Consolidated statement of changes in equity

Fiscal year ended December 31, 2022

(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	Financial assets measured at fair value through other comprehensive income
Balance at beginning of period		79,643	76,566	171,720	(20,189)	4,179	351
Hyperinflation adjustment	41	-	-	(539)	-	-	-
Equity after hyperinflation adjustment		79,643	76,566	171,180	(20,189)	4,179	351
Changes of the year							
Comprehensive income							
Profit		-	-	50,488	-	-	-
Other comprehensive income		-	-	-	-	14,134	(46)
Total		-	-	50,488	-	14,134	(46)
Transactions with owners							
Dividends	26	-	-	(18,216)	-	-	-
Purchase of treasury shares	25	-	-	-	(8)	-	-
Disposal of treasury shares	25	-	0	-	0	-	-
Cancellation of treasury shares	25	-	(0)	(19,902)	19,903	-	-
Share-based payment transactions	27	160	245	-	-	-	-
Change in scope of consolidation		-	-	-	-	-	-
Acquisition of non-controlling interests		-	(4)	-	-	-	-
Transfer from other components of equity to retained earnings		-	-	1,445	-	-	57
Total transactions with owners		160	240	(36,674)	19,894	-	57
Balance at end of period		79,804	76,806	184,995	(294)	18,314	362

(Millions of yen)

	Notes No.	Equity attributable to owners of parent			Total equity attributable to owners of parent	Non-controlling interests	Total
		Other components of equity					
		Cash flow hedges	Remeasurements of defined benefit plans	Total			
Balance at beginning of period		38	-	4,569	312,310	9,345	321,655
Hyperinflation adjustment	41	-	-	-	(539)	-	(539)
Equity after hyperinflation adjustment		38	-	4,569	311,770	9,345	321,116
Changes of the year							
Comprehensive income							
Profit		-	-	-	50,488	2,217	52,705
Other comprehensive income		(59)	1,502	15,531	15,531	365	15,896
Total		(59)	1,502	15,531	66,019	2,582	68,602
Transactions with owners							
Dividends	26	-	-	-	(18,216)	(2,167)	(20,383)
Purchase of treasury shares	25	-	-	-	(8)	-	(8)
Disposal of treasury shares	25	-	-	-	0	-	0
Cancellation of treasury shares	25	-	-	-	-	-	-
Share-based payment transactions	27	-	-	-	406	-	406
Change in scope of consolidation		-	-	-	-	0	0
Acquisition of non-controlling interests		-	-	-	(4)	(2)	(7)
Transfer from other components of equity to retained earnings		-	(1,502)	(1,445)	-	-	-
Total transactions with owners		-	(1,502)	(1,445)	(17,823)	(2,169)	(19,993)
Balance at end of period		(21)	-	18,655	359,966	9,758	369,725

Fiscal year ended December 31, 2023

(Millions of yen)

	Notes No.	Equity attributable to owners of parent					
						Other components of equity	
		Share capital	Capital surplus	Retained earnings	Treasury shares	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance at beginning of period		79,804	76,806	184,995	(294)	18,314	362
Hyperinflation adjustment	41	-	-	-	-	-	-
Equity after hyperinflation adjustment		79,804	76,806	184,995	(294)	18,314	362
Changes of the year							
Comprehensive income							
Profit		-	-	60,283	-	-	-
Other comprehensive income		-	-	-	-	9,929	198
Total		-	-	60,283	-	9,929	198
Transactions with owners							
Dividends	26	-	-	(18,943)	-	-	-
Purchase of treasury shares	25	-	-	-	(11)	-	-
Disposal of treasury shares	25	-	-	-	-	-	-
Cancellation of treasury shares	25	-	-	-	-	-	-
Share-based payment transactions	27	685	(212)	-	-	-	-
Change in scope of consolidation		-	-	-	-	-	-
Acquisition of non-controlling interests		-	-	-	-	-	-
Transfer from other components of equity to retained earnings		-	-	(2,067)	-	-	32
Total transactions with owners		685	(212)	(21,010)	(11)	-	32
Balance at end of period		80,489	76,593	224,267	(306)	28,243	592

(Millions of yen)

	Notes No.	Equity attributable to owners of parent					
		Other components of equity					
		Cash flow hedges	Remeasurements of defined benefit plans	Total	Total equity attributable to owners of parent	Non-controlling interests	Total
Balance at beginning of period		(21)	-	18,655	359,966	9,758	369,725
Hyperinflation adjustment	41	-	-	-	-	-	-
Equity after hyperinflation adjustment		(21)	-	18,655	359,966	9,758	369,725
Changes of the year							
Comprehensive income							
Profit		-	-	-	60,283	3,516	63,799
Other comprehensive income		15	(2,035)	8,107	8,107	297	8,405
Total		15	(2,035)	8,107	68,391	3,814	72,205
Transactions with owners							
Dividends	26	-	-	-	(18,943)	(1,875)	(20,819)
Purchase of treasury shares	25	-	-	-	(11)	-	(11)
Disposal of treasury shares	25	-	-	-	-	-	-
Cancellation of treasury shares	25	-	-	-	-	-	-
Share-based payment transactions	27	-	-	-	472	-	472
Change in scope of consolidation		-	-	-	-	-	-
Acquisition of non-controlling interests		-	-	-	-	-	-
Transfer from other components of equity to retained earnings		-	2,035	2,067	-	-	-
Total transactions with owners		-	2,035	2,067	(18,482)	(1,875)	(20,358)
Balance at end of period		(5)	-	28,830	409,875	11,697	421,572

(v) Consolidated statement of cash flows

(Millions of yen)

	Notes No.	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Cash flows from operating activities			
Profit before tax		69,481	84,733
Depreciation and amortization		24,068	26,590
Impairment losses		1,848	2,143
Interest and dividend income		(613)	(1,310)
Interest expenses		2,326	3,923
Foreign exchange loss (gain)		1,919	1,311
Share of loss (profit) of investments accounted for using equity method		(714)	(1,425)
Loss (gain) on sale of fixed assets		(92)	(153)
Decrease (increase) in trade and other receivables		(17,189)	(8,277)
Decrease (increase) in contract assets		(10,470)	2,890
Decrease (increase) in inventories		(54,411)	(14,600)
Increase (decrease) in trade and other payables		27,159	(28,877)
Increase (decrease) in contract liabilities		11,402	28,297
Increase (decrease) in provisions		(2,049)	(795)
Increase or decrease in retirement benefit asset or liability		539	32
Decrease/increase in consumption taxes receivable/payable		(5,226)	902
Other		8,121	(2,848)
Subtotal		56,098	92,536
Interest received		592	1,261
Dividends received		713	1,452
Interest paid		(1,965)	(3,770)
Income taxes paid		(18,370)	(21,466)
Net cash provided by (used in) operating activities		37,070	70,012
Cash flows from investing activities			
Payments into time deposits		(4,934)	(7,432)
Proceeds from withdrawal of time deposits		5,165	7,011
Purchase of investment securities		(325)	(547)
Proceeds from sales and redemption of investment securities		194	112
Purchase of property, plant and equipment, and intangible assets		(24,347)	(34,467)
Proceeds from sale of property, plant and equipment		557	281
Purchase of shares of subsidiaries resulting in change in scope of consolidation	6	(14,675)	-
Other		41	(583)
Net cash provided by (used in) investing activities		(38,324)	(35,625)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	36	(12,654)	(6,068)
Proceeds from long-term borrowings	36	11,138	41,769
Repayments of long-term borrowings	36	(6,513)	(13,267)
Repayments of lease liabilities	36	(5,321)	(6,261)
Proceeds from issuance of bonds	36	20,000	-
Proceeds from issuance of shares		0	0
Redemption of bonds		(10,000)	-
Purchase of treasury shares		(8)	(11)
Dividends paid		(18,216)	(18,943)
Dividends paid to non-controlling interests		(2,167)	(1,875)
Payments for acquisition of interests in subsidiaries from non-controlling interests		(7)	-
Other		1	-
Net cash provided by (used in) financing activities		(23,749)	(4,658)
Effect of exchange rate changes on cash and cash equivalents		4,742	2,713
Hyperinflation adjustment	41	(89)	(520)
Net increase (decrease) in cash and cash equivalents		(20,351)	31,922
Cash and cash equivalents at beginning of period	7	136,488	116,137
Cash and cash equivalents at end of period	7	116,137	148,059

Notes to the Consolidated Financial Statements

1. Reporting entity

EBARA CORPORATION (hereinafter the “Company”) is a company incorporated in Japan with a registered head office address in Ota-ku, Tokyo. The consolidated financial statements for the current fiscal year (from January 1, 2023, to December 31, 2023) are comprised of the accounts of the Company and its consolidated subsidiaries (hereinafter the “Group”), as well as its interests in associates and jointly controlled entities. The Group is engaged in five businesses defined by the target market that they each serve: Building Service & Industrial, Energy, Infrastructure, Environmental Solutions, and Precision Machinery.

Details of the Group’s main business lines and activities are provided in “5. Business segments.”

2. Basis of preparation

(1) Compliance with IFRS

The Group’s consolidated financial statements have been prepared in accordance with IFRS. Since the Company satisfies the requirements of a specified company complying with designated international accounting standards provided in Article 1-2 of the Regulation on Consolidated Financial Statements, it has adopted the provisions of Article 93 of the same Regulation.

The Group’s accounting policies comply with IFRS effective as of December 31, 2023, except for those IFRS standards that have not been adopted early.

The consolidated financial statements were approved on March 28, 2024, by President, Representative Executive Officer, CEO & COO Masao Asami.

(2) Basis of measurement

The Group’s consolidated financial statements have been prepared on a historical cost basis, except for financial instruments and other items described in “3. Material accounting policies” and “41. Hyperinflation adjustment.”

(3) Functional currency and presentation currency

The Group’s consolidated financial statements are presented in Japanese yen, the Company’s functional currency, and amounts less than one million yen have been rounded down to the nearest million yen.

(4) Changes in presentation

(Consolidated statement of cash flows)

“Increase (decrease) in accrued or accrued consumption taxes,” which was included in “Other” under cash flows from operating activities for the fiscal year ended December 31, 2022, is separately presented from the fiscal year ended December 31, 2023 due to its increased materiality in terms of financial value. To reflect this change in presentation, the consolidated statement of cash flows for the fiscal year ended December 31, 2022 has been reclassified.

As a result, the amount of ¥(5,226) million included in “Other” under cash flows from operating activities in the consolidated statement of cash flows for the fiscal year ended December 31, 2022 has been reclassified as “Increase (decrease) in accrued or accrued consumption taxes.”

3. Material accounting policies

(1) Basis of consolidation

(i) Subsidiaries

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

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

If the accounting policies adopted by a subsidiary differ from those adopted by the Group, adjustments are made to the financial statements of the subsidiary as necessary to ensure consistency with the accounting policies adopted by the Group.

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

(ii) Associates and joint ventures

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

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

Investments in associates 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 from when it gains significant influence until when it loses significant influence.

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

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

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

(iii) Business combinations

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

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

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

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

(2) Foreign exchange translation

(i) Foreign currency transaction

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

(ii) Financial statements of foreign operations

Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisitions, are translated into the presentation currency at exchange rates as of the end of the reporting period. Revenue and costs of foreign operations are translated at the average rate for the reporting period, except for when exchange rates fluctuate significantly. Exchange difference in foreign currency translation is recognized in other comprehensive income and accumulated in translation adjustments except for the component allocated to non-controlling interests. When all or part of foreign operations are disposed of, and control, significant influence or joint control is lost, the cumulative amounts of foreign currency translation adjustments related to such foreign operations are reclassified to profit or loss as part of a gain or loss on disposal. When the Group partly disposes of equity in a subsidiary but retains control, part of the cumulative amount is redistributed to non-controlling interests as appropriate. When the Group only partly disposes of an associate or a joint venture while retaining control, part of the cumulative amount is reclassified to profit or loss as appropriate. Revenues and expenses of subsidiaries in a hyperinflationary economy are translated into the presentation currency at the exchange rates prevailing at the fiscal year-end through the application of hyperinflationary accounting. Details of hyperinflationary accounting are stated in "41. Hyperinflation adjustment."

(3) Financial instruments

(i) Non-derivative financial assets

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

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

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

i) Financial assets measured at amortized cost

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

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

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

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

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

Financial assets measured at fair value other than those classified as financial assets measured at fair value through other comprehensive income are classified as those measured at fair value through profit or loss.

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

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

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

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

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

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

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

(ii) Impairment of non-financial assets

The Group recognizes a provision for bad debts corresponding to expected credit losses on financial assets measured at amortized cost. The Group determines at the end of the reporting period whether or not credit risk has increased significantly since initial recognition. If the credit risk of a financial instrument has increased significantly since initial recognition, a provision for bad debts for such financial assets is measured at the amount equal to lifetime expected credit losses. For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses. Notwithstanding the above, the Group always measures the provision for bad debts equal to lifetime expected credit losses for trade receivables, contract assets, and lease receivables that do not contain a significant financing component.

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

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

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

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

ii) time value of money, and

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

(iii) Non-derivative financial liabilities

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

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

i) Contingent considerations

Contingent considerations are included in other financial liabilities and are classified as financial liabilities measured at fair value through profit or loss. Their fair values are calculated by estimating the amount of considerations to be paid, taking into account future operating results and other relevant factors.

(iv) Derivatives and hedge accounting

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

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

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

i) Fair value hedges

Changes in the fair value of derivatives as a hedging instrument are recognized in profit or loss. Changes in the fair value of a hedged item attributable to the risk being hedged are recognized in profit or loss by adjusting the carrying amount of the hedged item.

ii) Cash flow hedges

The portion of changes in the fair value of derivatives as a hedging instrument determined to be an effective hedge is recognized in other comprehensive income.

The amount recognized in other comprehensive income is transferred from other components of equity to profit or loss in the reporting period when the transaction being hedged affects profit or loss. However, if a hedge of a forecast transaction subsequently results in recognition of a non-financial asset or a non-financial liability, the amount recognized in other comprehensive income is accounted for as an adjustment to the initial carrying amount of the non-financial asset or non-financial liability.

If a hedging instrument expires or is sold, terminated, or exercised, and the instrument no longer meets the qualifying criteria for hedge accounting even after adjusting the hedge ratio, the Group discontinues hedge accounting prospectively. If a forecast transaction is no longer expected, the amount recognized as other comprehensive income is immediately reclassified from other components of equity to profit or loss.

iii) Derivatives not designated as a hedge

Changes in the fair value of such derivatives are recognized in profit or loss.

(v) Offsetting financial assets and financial liabilities

A financial asset and a financial liability are presented on a net basis after offsetting only when the Group has a legally enforceable right to set off the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

(4) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible to a certain amount of cash with a maturity of three months or less from the date of acquisition and are subject to an insignificant risk of changes in value.

(5) Inventories

Inventories are measured at the lower of cost or net realizable value. The cost of inventories includes all costs of purchase, manufacturing and processing costs, and other costs incurred in bringing the inventories to their present location and condition and allocated based mainly on the weighted average method (or the moving average method for Precision Machinery). Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(6) Property, plant and equipment (excluding right-of-use assets):

(i) Recognition and measurement

The Group adopts the cost model for measuring property, plant and equipment after recognition. It is presented at cost less any accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment comprises any costs directly related to the acquisition, estimated costs for dismantling and removing the asset and restoring the site on which it is located, and borrowing costs attributable to a qualifying asset.

Expenditures incurred after the acquisition of property, plant and equipment for ordinary repairs and maintenance are expensed as incurred, whereas those for major replacements and improvements are capitalized when the expenditure is expected to bring future economic benefits to the Group.

(ii) Depreciation

Property, plant and equipment, excluding land and construction in progress, are depreciated from when they are available for use on a straight-line basis over their respective estimated useful lives. The estimated useful lives of major property, plant and equipment are as follows:

Buildings and structures	2 to 60 years
Machinery, equipment, and vehicles	2 to 38 years

The depreciation method, estimated useful lives, and residual values are reviewed at the end of each reporting period and revised as necessary.

(7) Goodwill and intangible assets

(i) Goodwill

For the measurement of goodwill at initial recognition, see “(1) Basis of consolidation, (iii) Business combinations.” Goodwill is not amortized but tested for impairment at the same time every year and whenever there is any indication that it may be impaired. While impairment losses on goodwill are recognized in profit or loss, they are not reversed.

After the initial recognition, goodwill is presented at cost less any accumulated impairment losses.

(ii) Intangible assets (excluding right-of-use assets):

Intangible assets acquired separately are measured at cost. The costs of intangible assets acquired through business combinations are measured at fair value on the date of the business combination.

The Group adopts the cost model for the measurement of intangible assets after recognition. It is presented at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets with a finite useful life are amortized on a straight-line basis over their respective estimated useful lives.

The estimated useful lives of major intangible assets are as follows:

Software for internal use	5 years

Intangible assets with an indefinite useful life and those not yet available for use are not amortized, and impairment tests are conducted at the same time each year, and whenever an impairment indicator is identified.

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 Group is reasonably certain to exercise that option) and periods covered by an option to terminate the lease (if the Group is reasonably certain not to exercise that option).

Right-of-use assets are initially measured at cost. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease obligation adjusted for any lease payments made at or before the commencement date, less any lease incentives received, with the addition of any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset and restoring the underlying asset or the site on which it is located.

After initial measurement, the right-of-use asset is depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. The estimated useful life of the right-of-use asset is determined in the same way as for property, plant and equipment held by the Company.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date and discounted at the interest rate implicit in the lease. If the interest rate implicit in the lease cannot be readily determined, the Company and the Group as lessees use their incremental borrowing rate. Generally, the Company and the Group use 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, or if there is a change in the lease term, such as a revision to the non-cancellable period. In these remeasurements of lease liabilities, corresponding adjustments are made to the carrying amount of right-of-use assets or recognized in profit or loss if the carrying amount of right-of-use assets is reduced to zero.

Right-of-use assets and lease liabilities are presented in the consolidated statement of financial position under “Property, plant and equipment” and under “Bonds, borrowings and lease liabilities,” respectively.

Short-term leases and leases of low-value assets

The Group has elected not to recognize right-of-use assets or lease liabilities for short-term leases with a lease term of 12 months or less and leases of low-value assets. The Group recognizes lease payments on these leases as expenses on a straight-line basis over the lease term.

(Lessor)

For operating lease transactions, the Group recognizes underlying assets in the consolidated statement of financial position and recognizes lease payments received as profit in the consolidated statement of profit or loss on a straight-line basis over the lease term.

(9) Impairment of non-financial assets

The Group assesses whether there is any indication of impairment on non-financial assets including property, plant and equipment as well as intangible assets.

If there is an indication of impairment, the Group measures the recoverable amount of each individual asset or cash-generating unit. Further, the Group does not amortize goodwill, intangible assets with indefinite useful lives, or intangible assets not yet available for use but instead performs an impairment test at the same time every fiscal year and whenever there is an indication of impairment.

In performing the impairment test, the Group aggregates the assets to the smallest group of assets that generates cash inflows from continuing use that are largely independent of those from other assets or groups of assets. As the Group’s corporate assets do not generate independent cash inflows, if there is an indication that a corporate asset may be impaired, the recoverable amount is estimated for the cash-generating unit that includes the corporate asset.

The recoverable amount is determined at the higher of its value in use and its fair value less costs of disposal. The value in use is determined at the present value of the estimated future cash flows discounted at the pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

If the carrying amount of an individual asset or a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized in profit or loss, and the carrying amount of the asset is reduced to the recoverable amount. An impairment loss recognized for a cash-generating unit is first allocated to reduce the carrying amount of goodwill included in the cash-generating unit. Then the carrying amount of other assets in the cash-generating unit is reduced proportionately.

An impairment loss for goodwill is not reversed. An impairment loss for non-financial assets other than goodwill is reversed if there is an indication that the impairment loss may no longer exist or may have been reduced and the recoverable amount exceeds the carrying amount after the write-down. In reversing the impairment loss, the difference between the recoverable amount and the carrying amount is recognized in profit or loss within a range that does not exceed the carrying amount had no impairment losses been recognized for the asset in prior periods.

(10) Employee benefits

(i) Post-employment benefits

(Defined benefit plans)

The Group calculates defined benefit obligations by estimating the amount of future benefits employees earned as consideration for services provided in the prior and current fiscal years and then discounting the estimated amount to the present value. The discount rate is determined by reference to market yields at the end of the fiscal year on high-quality corporate bonds with more or less the same maturity as the Group's defined benefit obligations.

Retirement benefit asset or retirement benefit liability is recognized at the present value of defined benefit obligations less the fair value of plan assets (including adjustment of the plan asset ceiling). Service cost and net interest on net defined benefit liability (asset) are recognized in profit or loss.

An increase or a decrease arising from remeasurements of defined benefit plans is recognized at a lump sum in other comprehensive income for the period it was incurred and immediately transferred to retained earnings. Past service cost is fully recognized in profit or loss as incurred.

(Defined contribution plans)

For defined contribution plans, contribution payables to defined contribution plans are recognized as expenses when employees provide relevant services.

(ii) Short-term employee benefits

The Group expenses short-term employee benefits at the time when the employees provide relevant services without discounting them.

The Group recognizes bonuses and paid leave costs as a liability at an estimated amount payable under these plans if it has legal or constructive obligations and if the amount can be reliably estimated.

(iii) Other long-term employee benefits

Net obligation to the Group's long-term employee benefit is the amount of future benefits the employees earned as consideration for services provided in prior and current fiscal years. The amount is discounted to the present value. The difference arising from remeasurements is recognized in profit or loss in the period incurred.

(11) Share-based payment transactions

The Company adopts the following share-based payment plan as an incentive to its Directors, Executive Officers, and employees.

(Stock option plan)

Stock options are calculated based on the fair value as of grant dates. They are expensed over the vesting period reflecting the final number of stock options expected to be vested, and the same amount is recognized as an increase in equity. The fair value of a stock option is computed using the Black-Scholes model.

(Restricted stock compensation and performance-linked stock compensation schemes)

The Company has introduced share-based compensation schemes that are equity-settled and cash-settled to raise the motivation for contributing to the sustainable growth of corporate value and sharing value with the shareholders.

For equity-settled share-based compensation, the consideration for services received is measured by reference to the fair value of shares of the Company to be granted. The amount of consideration for services determined is recognized as an expense in profit or loss, with the corresponding amount recognized as an increase in equity.

For cash-settled share-based compensation, the fair value of the payment is recognized as a liability, and the change in fair value of the liability is recognized in profit or loss over the period up to the vesting of an unconditional right to receive payments.

(12) Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount of a provision is determined by discounting the estimated future cash flows to the present value at the pre-tax rate that reflects the time value of money and the risks specific to the liability. Any increase in the provision reflecting the effect of the passage of time is recognized as finance costs.

(13) Revenue

For contracts with customers, the Group recognizes revenue based on the following five-step approach.

Step 1: Identify the contract(s) with the customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies performance obligations

The Group is engaged in manufacturing, sales, construction, maintenance, and other activities in its Building Service & Industrial, Energy, Infrastructure, Environmental Solutions, and Precision Machinery.

(i) Building Service & Industrial, Energy, and Infrastructure

The Building Service & Industrial is engaged in manufacturing, sales, construction and maintenance services related primarily to standard pumps (surface pumps, submersible pumps, and booster pumps), freezer chillers, blowers and fans.

The Energy is engaged in manufacturing, sales, construction and maintenance services related primarily to custom pumps (boiler feed pumps), compressors, turbines and other products.

The Infrastructure is engaged in manufacturing, sales, construction and maintenance services related primarily to custom pumps (agricultural pumps, drainage pumps, water and sewage pumps), tunnel fans and other products.

For the manufacture and sale of products in the Building Service & Industrial, Energy, and Infrastructure, based on a comprehensive assessment of indicators of the transfer of control, such as the legal title of the product, physical possession of the product, transfer of significant risks and rewards of ownership of the product to customers, and the right to receive payment from customers, the Group determines that control of the products is transferred to the customers and the performance obligation is satisfied primarily at the time of delivery or inspection of the products.

For construction and maintenance contracts in the Building Service & Industrial, Energy, and Infrastructure, the Group satisfies a performance obligation over a certain period and, therefore, recognizes revenue over time because primarily one of the following criteria is met and control of a products or services is transferred over time.

i) the customer simultaneously receives and consumes the benefits provided by the Group’s performance at the same time as the Group performs;

ii) the Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

iii) the Group’s performance does not create an asset with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

If the result of the performance obligation can be reasonably measured, revenue is recognized over the construction or maintenance period based on the progress rate for the fulfillment of the performance obligation estimated as of the end of the reporting period. The progress rate is calculated based on the ratio of the actual cost to the estimated total cost (input method). If the outcome of the performance obligation cannot be reasonably measured, but the Group expects to recover the cost of satisfying the performance obligation, the Group faithfully depicts its performance by recognizing sales only to the extent of the cost incurred.

(ii) Environmental Solutions

The Environmental Solutions is engaged in manufacturing, sales, construction, and maintenance services related to municipal waste processing plants and industrial waste incineration plants.

For the manufacture and sale of products in the Environmental Solutions segment, 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 based on a comprehensive assessment of indicators of the transfer of control, such as the legal title of the product, physical possession of the product, transfer of significant risks and rewards of ownership of the product to a customer, and the right to receive payment from a customer..

For construction and maintenance contracts in the Environmental Solutions, the Group satisfies a performance obligation over a certain period and, therefore, recognizes revenue over time because primarily one of the following criteria is met and control of products or services is transferred over time.

i) the customer simultaneously receives and consumes the benefits provided by the Group’s performance at the same time as the Group performs;

ii) the Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

iii) the Group’s performance does not create an asset with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

If the result of the performance obligation can be reasonably measured, revenue is recognized over the construction or maintenance period based on the progress rate for the fulfillment of the performance obligation estimated as of the end of the reporting period. The progress rate is calculated based on the ratio of the actual cost to the estimated total cost (input method). If the outcome of the performance obligation cannot be reasonably measured, but the Group expects to recover the cost of satisfying the performance obligation, the Group faithfully depicts its performance by recognizing sales only to the extent of the cost incurred.

(iii) Precision Machinery

The Precision Machinery is engaged in manufacturing, sales, and maintenance services related primarily to dry vacuum pumps, CMP equipment, plating equipment, and exhaust-gas treatment equipment.

For the manufacture and sales of products in the Precision Machinery, based on a comprehensive assessment of indicators of the transfer of control, such as the legal title of the product, physical possession of the product, transfer of significant risks and rewards of ownership of the product to customers, and the right to receive payment from customers, the Group determines that control of the products is transferred to the customers and the performance obligation is satisfied primarily at the time of delivery or inspection of the products.

Revenue is measured as the amount of consideration promised in the contract with customers by deducting discounts, late fees, and other charges. For variable consideration, including variable discounts, the amount of consideration is estimated using all reasonably available information, and revenue is recognized only to the extent that it is highly probable that a significant reversal will not occur. Furthermore, the Group does not adjust the interest rate component of the consideration because it expects that, at the inception of the contract, the period between the time when the goods or services are transferred to the customers and the time when the customers pay the consideration is one year or less, applying practical expedients under IFRS 15 “Revenue from Contracts with Customers.”

If multiple performance obligations are identified in the contract, the transaction amount is allocated to each performance obligation, mainly at a ratio of the observable standalone selling price.

(14) Income taxes

Income tax expense is shown as the aggregate amount of current tax and deferred tax.

Current tax is measured at the amount expected to be paid to or recovered from the taxation authorities using the tax rates enacted or substantively enacted by the end of the reporting period. These are recognized under the profit or loss of the fiscal year, excluding items associated with a business combination and those recognized directly under equity or other comprehensive income.

Deferred tax assets and liabilities are measured at the tax rates expected to apply in the period in which the asset is realized or the liability is settled based on tax rates enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are measured based on a temporary difference, which is the difference between the carrying amount of assets and liabilities, and the tax base of assets and liabilities and based on losses carried forward. Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which the deductible temporary differences, tax loss carried forward, and tax credit carried forward can be utilized.

Deferred tax assets and liabilities are not recognized for temporary differences arising from the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or taxable income and does not result in taxable temporary differences and deductible temporary differences of the same amount. 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.

From the current fiscal year, the Company and some of its consolidated subsidiaries have applied the Japanese Group Relief System.

The Group has applied the “International Tax Reform–Pillar Two Model Rules (Amendments to IAS 12)” published in May 2023. The amendments provide for an exception which temporarily allows an entity to not recognize and not disclose information about deferred tax assets and liabilities arising under the taxation system related to the Pillar Two model rules published by the Organisation for Economic Co-operation and Development (OECD). The Group has applied this exception, and as such does not recognize or disclose information about deferred tax assets and liabilities related to income taxes based on the OECD Pillar Two model rules.

(15) Borrowing costs

For an asset that necessarily takes a substantial period to get ready for its intended use or sale, borrowing costs directly attributable to the acquisition, construction, or production of such asset are capitalized as part of the cost of that asset. All other borrowing costs are recognized as an expense in the period they are incurred.

(16) Earnings per share

Basic earnings per share are calculated by dividing the profit or loss attributable to common shareholders of the parent by the weighted-average number of common shares outstanding during the period, adjusted for treasury shares. Diluted earnings per share are calculated after adjusting for the effect of dilutive potential shares.

(17) Hyperinflation adjustment

For hyperinflation adjustment, please refer to “41. Hyperinflation adjustment.”

4. Significant accounting estimates and related judgments

In preparing consolidated financial statements in accordance with IFRS, the management is required to make judgments, estimates, and assumptions that may affect the adoption of accounting policies and the reported amounts of assets, liabilities, income, and expenses.

However, the actual performance may differ from these estimates.

Accounting estimates and underlying assumptions are reviewed on an ongoing basis. The effect of a change in an accounting estimate is recognized in the period of the change and future periods if the change affects both.

The assumptions and sources of estimation uncertainty in the consolidated financial statements that have a risk of resulting in a significant adjustment to the carrying amounts of assets and liabilities within the next fiscal year are as outlined below:

・ Revenue recognition

Revenue is recognized over time mainly for construction and maintenance contracts in the Pumps, Compressors & Turbines, and Chillers businesses of the Building Service & Industrial, Energy, and Infrastructure as well as in the Environmental Solutions, 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 costs, changes in contract amounts, or for other reasons that may significantly impact the amount recognized in the consolidated financial statements.

The carrying amount of contract assets as of December 31, 2023, is as stated in “28. Revenue.”

・ Recoverability of deferred tax assets

Recoverability of deferred tax assets is regularly examined, and deferred tax assets are recorded reflecting future estimated taxable income and feasible tax planning, to the extent that it is probable that taxable income will be available against which deductible temporary differences, tax losses carried forward and tax credit carried forward can be utilized. The timing of incurring future taxable income and its amount for assuming estimates are measured based on the business plan approved by the management, but such assumptions may fluctuate due to factors such as the business results at that time. Therefore, recoverability will be reviewed to adjust deferred tax assets in the event of any factors that affect these estimates and may significantly impact the amount of deferred tax assets recognized in the consolidated financial statements.

The carrying amount of deferred tax assets as of December 31, 2023, is stated in “17. Income taxes.”

・ Accounting and evaluation of provisions

The Group records provisions such as those for warranties on completed construction and for construction losses. These provisions are recognized if the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Assumptions used to measure such provisions may be affected by changes in uncertain economic conditions in the future and may significantly impact the amount of provisions recognized in the consolidated financial statements over the future.

The carrying amount of provisions as of December 31, 2023, is stated in “23. Provisions.”

・ Defined benefit obligations

The Group calculates defined benefit obligations by estimating the amount of future benefits employees earned as consideration for services provided in the prior and current fiscal years and then discounting the amount to the present value. The discount rate is a significant actuarial assumption determined by reference to market yields at the end of the fiscal year on high-quality corporate bonds with more or less the same maturity as the Group’s defined benefit liability.

Other actuarial assumptions include estimated rates of retirement, mortality, and salary increase. Such actuarial assumptions may be affected mainly by changes in the future economic environment or social trends, and any reviews of the assumptions may significantly impact the value of defined benefit liability recognized in the consolidated financial statements.

The carrying amounts of retirement benefit assets and liabilities as of December 31, 2023, are stated in “24. Employee benefits.”

・ Impairment of non-financial assets

The Group assesses indications of impairment in non-financial assets including property, plant and equipment and goodwill 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, goodwill or intangible assets with indefinite useful lives and those not yet available for use are tested for impairment at the same time every fiscal year and whenever there is an indication of impairment. The Group uses certain assumptions on factors such as future cash flows, discount rates, and growth rates for calculating recoverable amounts in impairment testing.

Although these assumptions are determined by the management’s best estimate and judgment, they may be affected by factors such as changes in uncertain economic conditions in the future and changes in the business plan. Any reviews of the plans may significantly impact the consolidated financial statements.

The carrying amount of property, plant and equipment as well as goodwill and intangible assets as of December 31, 2023, is stated in “11. Property, plant and equipment” and “12. Goodwill and intangible assets,” respectively.

Regarding COVID-19, efforts to balance infection prevention measures and economic activities envisaging life with COVID-19 continue worldwide, and demand for social and industrial infrastructure is recovering.

The Group made accounting estimates assuming that COVID-19 will have only limited impact on the Group’s business and that in the following fiscal year, the business environment will remain steady as well.

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 five in-house companies defined by the target market that they each serve: Building Service & Industrial, Energy, Infrastructure, Environmental Solutions, and Precision Machinery.

Therefore, the Group has five reportable segments of Building Service & Industrial, Energy, Infrastructure, Environmental Solutions, and Precision Machinery, and each of the reportable segments is composed of products and services for their respective target market stated above.

From the first quarter of the fiscal year ending December 31, 2023, the classification of reportable segments has been changed. One of our basic policies in E-Vision 2030, our long-term vision announced in February 2020, is to accurately grasp social issues from a market-in perspective and grow by contributing to the resolution of those issues. In the Medium-term Management Plan "E-Plan 2025" that began in the fiscal year ended December 31, 2023, we reorganized into a five-company system by target market, and decided to change the business segment from the conventional product-based segment to major market-based segments. As a result, figures for the previous fiscal year have been reclassified into the new segment classification.

The principal target markets and products and services of each reportable segment are as follows:

Reportable segments	Principal target markets	Principal products and services
Building Service & Industrial	Building and industry equipment	Standard pumps (surface pumps, submersible pumps, and booster pumps), freezer chillers, blowers and fans
Energy	Oil and gas, power facility, new energy	Custom pumps (boiler feed pumps), compressors, and turbines
Infrastructure	Water infrastructure	Custom pumps (agricultural pumps, drainage pumps, water and sewage pumps), and tunnel fans
Environmental Solutions	Solid waste treatment	Municipal waste processing plants and industrial waste incineration plants
Precision Machinery	Semiconductor manufacturing	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. Material accounting policies.” Profits from reportable segments are based on the same accounting policy of the Group, and profit figures are based on operating profit. Intersegment sales and transfers are recorded at the same prices used in transactions with customers.

Fiscal year ended December 31, 2022

(Millions of yen)

	Segment						Others (Note 1)	Total	Adjustment (Notes 2, 3)	Consolidated (Note 4)
	Building Service & Industrial	Energy	Infrastructure	Environmental Solutions	Precision Machinery	Total				
Revenue										
External customers	193,529	143,605	46,258	73,738	222,259	679,391	1,478	680,870	-	680,870
Intersegment and transfers	554	76	34	102	7	775	2,287	3,062	(3,062)	-
Total	194,083	143,681	46,293	73,841	222,267	680,167	3,765	683,933	(3,062)	680,870
Segment profit (loss)	11,401	16,936	3,924	3,669	36,183	72,114	(1,216)	70,898	(325)	70,572
Finance income										957
Finance costs										2,762
Share of profit (loss) of investments accounted for using equity method										714
Profit before tax										69,481
Other items										
Depreciation and amortization	6,112	4,470	1,380	843	7,385	20,193	3,920	24,113	(45)	24,067
Impairment losses	1,506	0	5	0	306	1,819	29	1,848	(0)	1,848
Capital expenditures	6,553	2,666	1,847	2,013	6,328	19,410	8,290	27,700	(103)	27,597
Investment in entities applying equity method	-	-	-	7,153	-	7,153	-	7,153	-	7,153

Notes: 1. “Others” in the table above is the operating segment for operations that are not included among reportable segments. It contains business support services and other activities.

2. The adjustment of segment profit (loss) is the elimination of intersegment transactions.

3. The adjustments of the items under “Other items” are the elimination of intersegment transactions.

4. Segment profit has been reconciled with operating profit in the consolidated statement of profit or loss.

Fiscal year ended December 31, 2023

(Millions of yen)

	Segment						Others (Note 1)	Total	Adjustment (Notes 2, 3)	Consoli-dated (Note 4)
	Building Service & Industrial	Energy	Infrastruc-ture	Environ-mental Solutions	Precision Machinery	Total				
Revenue										
External customers	222,181	167,229	50,178	71,540	246,998	758,128	1,199	759,328	-	759,328
Intersegment and transfers	1,235	424	40	97	2	1,799	826	2,625	(2,625)	-
Total	223,417	167,653	50,218	71,638	247,000	759,927	2,026	761,954	(2,625)	759,328
Segment profit (loss)	15,737	22,347	4,604	6,933	38,285	87,907	(933)	86,974	(949)	86,025
Finance income										1,643
Finance costs										4,361
Share of profit (loss) of investments accounted for using equity method										1,425
Profit before tax										84,733
Other items										
Depreciation and amortization	6,731	4,980	944	770	7,656	21,083	5,563	26,646	(56)	26,590
Impairment losses	1,440	3	2	40	12	1,498	645	2,144	(0)	2,143
Capital expenditures	9,512	6,513	564	2,748	12,233	31,572	9,344	40,916	(216)	40,699
Investment in entities applying equity method	-	-	-	7,192	-	7,192	-	7,192	-	7,192

Notes: 1. “Others” in the table above is the operating segment for operations that are not included among reportable segments. It contains business support services and other activities.
2. The adjustment of segment profit (loss) is the elimination of intersegment transactions.
3. The adjustments of the items under “Other items” are the elimination of intersegment transactions.
4. Segment profit has been reconciled with operating profit in the consolidated statement of profit or loss.

(3) Information on products and services

As the product and service categories are the same as the reportable segments, their descriptions are omitted.

(4) Information by region

Revenue from external customers by region is as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Japan	253,821	271,301
China	110,301	131,892
Other Asia	137,170	139,700
North America	57,688	80,922
Others	121,888	135,512
Total	680,870	759,328

Notes: 1. Revenues are classified by country or region based on the location of the customers.
2. Major countries and regions included in each category:
(1) Other Asia: Taiwan and South Korea
(2) North America: United States and Canada
(3) Others: Saudi Arabia and Brazil

Non-current assets (excluding financial instruments, deferred tax assets, and defined benefit assets.) by region are as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Japan	125,127	132,010
China	11,505	13,790
Other Asia	8,435	12,267
United States	26,542	27,456
Others	37,438	40,738
Total	209,049	226,264

Notes: 1. Non-current assets are classified by country or region based on the location of the assets.
2. Major countries and regions included in each category:
(1) Other Asia: South Korea and Taiwan
(2) Others: Canada and Turkey

(5) Information on major customers

No single external customer accounted for 10% or more of revenue.

6. Business combinations

Fiscal year ended December 31, 2022

A significant business combination was conducted in the fiscal year ended December 31, 2022, as follows:

Based on an equity interest purchase agreement concluded on September 28, 2022, the Group has acquired all equity interests of Hayward Gordon Holdings, L.P., a North American pump and mixer manufacturer, and its six subsidiaries.

(1) Overview of the business combination

(i) Name and business of acquired companies

Names of acquired companies: Hayward Gordon Holdings, L.P. and its six subsidiaries

Business description: Manufacture, sales, and after-sales services of industrial pumps, mixers, and monitoring systems.

(ii) Date of acquisition: September 30, 2022

(iii) Percentage of voting rights acquired: 100.0%

(iv) Primary reason for the business combination:

To broaden the product lineups and establish distribution channels mainly for public sewage, industrial equipment, and process industry to expand the Company's standard pump business in the North American region.

(v) Legal form of the business combination: Cash acquisition of shares

(2) Consideration paid, the fair value of assets acquired and liabilities assumed, and the amount of goodwill as of the date of the business combination

(Millions of yen)

	Amount
Fair value of acquisition costs	
Cash	14,969
Total	14,969
Fair value of acquired assets	
Cash and cash equivalents	294
Trade and other receivables	1,783
Contract assets	1,302
Inventories	1,666
Property, plant and equipment	368
Intangible assets	4,848
Other assets	286
Fair value of assumed liabilities	
Trade and other payables	993
Contract liabilities	1,115
Borrowings and lease liabilities	313
Other liabilities	1,627
Fair value of acquired assets and assumed liabilities (net)	6,500
Goodwill	8,469
Total	14,969

Notes: 1. The post-acquisition price adjustment had not been completed during the third quarter ended September 30, 2022. However, the adjustment was completed during the fourth quarter ended December 31, 2022, and the consideration for the acquisition was finalized.

2. For the fair value of trade and other receivables (mainly accounts receivable) worth ¥1,783 million, the total contract amount is ¥1,804 million, and estimated contractual cash flows not expected to be recovered as of the acquisition date are ¥21 million.

3. Goodwill generated by this business combination is recorded in the Building Service & Industrial segment and mainly comprises impacts of synergies with existing businesses and excess earning power expected from the acquisition that does not meet the requirements for recognition individually. No amount of this goodwill is expected to be deductible for tax purposes.
4. The amounts of acquired assets, assumed liabilities, and goodwill were tentatively measured in the third quarter ended September 30, 2022, based on information available since purchase price allocation was incomplete. However, they were finalized during the fourth quarter ended December 31, 2022, and the finalization of provisional accounting treatments is reflected in the results. Details of amendments and amounts recognized accordingly during the measurement period are as follows:

(Millions of yen)

Goodwill (before revision)	11,015
Changes in intangible assets	(3,896)
Deferred tax liabilities	1,201
Others	148
Goodwill (after revision)	8,469

(3) Acquisition-related costs

Acquisition-related costs related to this business combination amounted to ¥363 million, all of which were recorded as selling, general and administrative expenses.

(4) Effect on the financial results

(i) Revenue and profit included in the consolidated statement of profit or loss for the fiscal year ended December 31, 2022

Revenue: ¥1,978 million

Profit: ¥218 million

(ii) Effect on revenue and profit in the consolidated statement of profit or loss assuming that the business combination was implemented at the beginning of the period (unaudited)

Revenue: ¥7,802 million

Profit: ¥(184) million

Fiscal year ended December 31, 2023

There were no significant business combinations in the fiscal year ended December 31, 2023.

7. Cash and cash equivalents

Details of cash and cash equivalents are as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Cash and deposits	116,398	151,597
Securities	2,665	435
Securities with maturities over three months	-	(435)
Time deposits with maturities over three months	(2,926)	(3,537)
Total	116,137	148,059

The balance of cash and cash equivalents on the consolidated statement of financial position matches the balance of cash and cash equivalents on the consolidated statement of cash flows as of December 31, 2022, and December 31, 2023.

8. Trade and other receivables

The components of trade and other receivables are as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Accounts and notes receivable - trade and electronically recorded monetary claims	152,591	163,352
Other receivables	2,191	3,083
Allowance for doubtful accounts (Note)	(3,118)	(3,071)
Total	151,665	163,363

Note: Trade and other receivables are presented net of allowance for doubtful accounts in the consolidated statement of financial position.

9. Inventories

The components of inventories are as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Merchandise and finished goods	30,199	36,588
Work in process	78,877	86,953
Raw materials and supplies	72,260	77,074
Total	181,337	200,616

Notes: 1. Inventories recognized as expenses and included in the cost of sales during the fiscal years ended December 31, 2022 and 2023 amounted to ¥449,451 million and ¥491,491 million, respectively.

2. The write-downs of inventories recognized as cost of sales during the fiscal years ended December 31, 2022 and 2023 amounted to ¥4,750 million and ¥5,492 million, respectively. The amounts of reversals of write-downs for the fiscal years ended December 31, 2022 and 2023 were not material.

3. There were no inventories pledged as collateral for liabilities.

10. Other financial assets

The components of other financial assets are as follows:

(1) Current assets

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Time deposits	2,926	3,537
Loans receivable	11	3
Others	603	815
Total	3,540	4,357

(2) Non-current assets

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Investment securities	2,210	2,758
Guarantee deposits	2,351	2,361
Long-term loans receivable	93	79
Others	2,128	815
Total	6,783	6,015

11. Property, plant, and equipment

Property, plant and equipment consist of Group-held assets that do not meet the definition of investment property and right-of-use assets.

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Group-held property, plant and equipment	144,960	155,066
Right-of-use assets	20,755	20,815
Total	165,715	175,882

Right-of-use assets are as stated in “14. Leases.”

The changes in the carrying amount of Group-held property, plant and equipment during the period were as follows:

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of January 1, 2022	57,901	42,955	21,754	11,985	5,477	140,074
Purchases	289	1,959	-	12,827	772	15,849
Acquisition through business combination	32	138	-	-	9	180
Transfer from construction in progress	9,243	6,632	424	(18,148)	1,848	-
Depreciation	(4,711)	(8,018)	-	-	(2,615)	(15,346)
Impairment losses	(31)	(154)	-	(167)	(4)	(358)
Sale or disposal	5	(307)	(190)	(352)	(37)	(882)
Exchange differences on translation	2,143	2,147	317	938	243	5,790
Other changes	1	(81)	0	(374)	107	(346)
As of December 31, 2022	64,873	45,271	22,305	6,709	5,801	144,960
Purchases	351	3,685	411	18,891	886	24,226
Acquisition through business combination	-	143	-	-	-	143
Transfer from construction in progress	3,609	6,212	399	(12,616)	2,395	-
Depreciation	(4,833)	(8,722)	-	-	(2,635)	(16,191)
Impairment losses	(226)	(359)	-	(107)	(10)	(704)
Sale or disposal	(51)	(154)	(21)	(109)	(31)	(368)
Exchange differences on translation	1,312	1,527	215	165	180	3,402
Other changes	(86)	72	0	(346)	(40)	(401)
As of December 31, 2023	64,948	47,675	23,310	12,585	6,545	155,066

Depreciation is included in “cost of sales” and “selling, general and administrative expenses.” Impairment losses are included in other expenses.

The costs of property, plant and equipment owned by the Group are as follows:

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of January 1, 2022	136,487	161,510	23,029	11,995	43,458	376,482
As of December 31, 2022	149,790	171,275	23,580	6,878	48,538	400,063
As of December 31, 2023	155,364	181,447	24,585	12,693	49,544	423,634

Accumulated depreciation and accumulated impairment losses on property, plant and equipment owned by the Group are as follows:

(Millions of yen)

	Buildings and structures	Machinery, equipment and vehicles	Land	Construction in progress	Others	Total
As of January 1, 2022	78,586	118,554	1,275	10	37,981	236,407
As of December 31, 2022	84,917	126,004	1,275	169	42,737	255,103
As of December 31, 2023	90,415	133,771	1,275	107	42,998	268,568

12. Goodwill and intangible assets

Goodwill and intangible assets consist of assets owned by the Group and right-of-use assets.

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Goodwill and intangible assets owned by the Group	43,315	50,372
Right-of-use assets	17	9
Total	43,333	50,381

Right-of-use assets are as stated in "14. Leases."

The changes in the carrying amounts of goodwill and intangible assets owned by the Group during the period are as follows:

(Millions of yen)

	Goodwill	Software	Other intangible assets	Total
As of January 1, 2022	5,545	13,633	4,008	23,186
Purchases	-	7,881	85	7,967
Internal development	-	140	-	140
Acquisition through business combination	8,469	38	4,810	13,318
Amortization	-	(3,392)	(575)	(3,967)
Impairment losses	(1,446)	(17)	-	(1,464)
Sale or disposal	-	(10)	0	(10)
Exchange differences on translation	2,727	43	1,330	4,101
Other changes	-	40	3	43
As of December 31, 2022	15,295	18,356	9,663	43,315
Purchases	-	10,821	645	11,466
Internal development	-	-	36	36
Acquisition through business combination	169	-	451	620
Amortization	-	(4,748)	(721)	(5,469)
Impairment losses	(1,395)	(0)	-	(1,395)
Sale or disposal	-	(156)	-	(156)
Exchange differences on translation	1,402	61	696	2,161
Other changes	-	152	(358)	(206)
As of December 31, 2023	15,472	24,486	10,413	50,372

Amortization is included in "Cost of sales" and "Selling, general and administrative expenses." Impairment losses are included in other expenses.

The costs of goodwill and intangible assets owned by the Group are as follows:

(Millions of yen)

	Goodwill	Software	Other intangible assets	Total
As of January 1, 2022	5,545	42,138	8,453	56,137
As of December 31, 2022	16,855	49,765	15,377	81,998
As of December 31, 2023	18,743	60,121	17,306	96,171

Accumulated amortization and impairment losses of goodwill and intangible assets owned by the Group are as follows:

(Millions of yen)

	Goodwill	Software	Other intangible assets	Total
As of January 1, 2022	-	28,505	4,444	32,950
As of December 31, 2022	1,559	31,409	5,713	38,682
As of December 31, 2023	3,270	35,635	6,892	45,799

13. Impairment of non-financial assets

(1) Cash-generating unit

The Group categorizes its assets according to its operating segments by the smallest cash-generating unit that generates independent cash inflows. The Group considers individual properties as grouping units for idle assets, assets held for sale, and assets to be disposed of.

(2) Impairment losses

The Group recognizes an impairment loss when the recoverable amount of an asset is less than its carrying amount. Impairment losses are included in “Other expenses” in the consolidated statement of profit or loss, and their breakdown by segment is provided in “5. Operating segments.”

Impairment losses by asset class are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Buildings and structures	31	226
Machinery, equipment and vehicles	154	359
Goodwill	1,472	1,437
Others	190	119
Total	1,848	2,143

Fiscal year ended December 31, 2022

For assets and idle assets with no prospect for future use that are held for disposal or sale, their carrying amount is reduced to their recoverable amount. The recoverable amount of assets scheduled for disposal is based on their value in use, and their carrying amount is reduced to the memorandum value, assuming the value in use is zero. Assets held for sale and idle assets are principally measured at fair value, less costs of disposal. The fair value less costs of disposal is based on the estimated selling price and is classified as level 3 in the fair value hierarchy.

The discount rate used in the impairment test on the goodwill associated with Vansan Makina Sanayi ve Ticaret A.S. and its subsidiaries has risen, reflecting the rise in country risk as a result of the uncertainty over the outlook of the Turkish economy and a portion of the goodwill is currently expected to become unrecoverable. Accordingly, the carrying amount has been reduced to its recoverable amount. The recoverable amount is calculated on the basis of value in use, and the value in use is calculated by estimating the amount of future cash flows based primarily on the business plan and growth rate approved by management and discounting the estimated amount of cash flows to the present value using a discount rate based on the weighted-average cost of capital before tax of 39.8%.

Fiscal year ended December 31, 2023

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.

A portion of the goodwill associated with Vansan Makina Sanayi ve Ticaret A.S. and its subsidiaries is currently expected to become unrecoverable due to a revision of the business plan reflecting actual results and economic conditions surrounding Turkey. Accordingly, the carrying amount has been reduced to its recoverable amount. The recoverable amount is calculated on the basis of value in use, and the value in use is calculated by estimating the amount of future cash flows based primarily on the business plan and growth rate approved by management and discounting the estimated amount of cash flows to the present value using a discount rate based on the weighted-average cost of capital before tax of 67.7%.

(3) Impairment test on goodwill

The Group tests goodwill for impairment at least once in a fiscal year and as needed if there is an indication of impairment. The recoverable amount in the impairment test is calculated based on the value in use.

The carrying amount of the Group's major goodwill is as follows:

(Millions of yen)

Reportable segments	Cash-generating units or groups of cash-generating units	As of December 31, 2022	As of December 31, 2023
Building Service & Industrial	Vansan Makina Sanayi ve Ticaret A.S. and its subsidiaries	6,617	5,835
Building Service & Industrial	EBARA HG Holdings Inc. and its subsidiaries	7,877	8,570
Building Service & Industrial	Others	801	1,066
	Total	15,295	15,472

Note: Cigli Su Teknolojileri A.S. was dissolved through an absorption-type merger with Vansan Makina Sanayi ve Ticaret A.S. as of December 30, 2022.

1. Vansan Makina Sanayi ve Ticaret A.S. and its subsidiaries

The value in use is calculated by estimating the amount of future cash flows based primarily on the business plan and growth rate approved by the management and then discounting the estimated amount of cash flows to the present value. The business plan basically spans a maximum period of five years and is prepared to reflect the management's evaluation of future industry trends and past data and is aligned with external and internal information. The growth rate used to estimate the amount of future cash flows expected to be generated beyond the business plan period is determined with reference to the estimated inflation rate of the country to which the cash-generating units belong and other relevant factors and is 40.2% during the fiscal year ended December 31, 2023 (16.1% during the fiscal year ended December 31, 2022). The discount rate is calculated based on the weighted-average cost of capital before tax for each cash-generating unit and was 67.7% during the fiscal year ended December 31, 2023 (39.8% during the fiscal year ended December 31, 2022).

In the fiscal year ended December 31, 2022, the discount rate used in the impairment test rose to 39.8%, reflecting the rise in country risk due to the uncertainty over the outlook of the Turkish economy, and a portion of the goodwill is currently expected to become unrecoverable. Accordingly, the carrying amount has been reduced to its recoverable amount, and impairment losses on the goodwill of ¥1,472 million have been reported under "Other expenses."

In the fiscal year ended December 31, 2023, due to a revision of the business plan reflecting actual results and economic conditions surrounding Turkey, a portion of the goodwill is currently expected to become unrecoverable. Accordingly, the carrying amount has been reduced to its recoverable amount, and impairment losses on the goodwill of ¥1,437 million have been reported under “Other expenses.”

2. EBARA HG Holdings Inc. and its subsidiaries

The value in use is calculated by estimating the amount of future cash flows based primarily on the business plan and growth rate approved by the management and then discounting the estimated amount of cash flows to the present value. The business plan basically spans a maximum period of five years and is prepared to reflect the management’s evaluation of future industry trends and past data and is aligned with external and internal information. The growth rate used to estimate the amount of future cash flows expected to be generated beyond the business plan period is determined with reference to the estimated inflation rate of the country to which the cash-generating units belong and is 3.0% during the fiscal year ended December 31, 2023 (2.0% during the fiscal year ended December 31, 2022). The discount rate is calculated based on the weighted-average cost of capital before tax for each cash-generating unit and was 13.5% during the fiscal year ended December 31, 2023 (12.8% during the fiscal year ended December 31, 2022). As a result, the recoverable amount exceeded the carrying amount by ¥1,465 million. This implies that a 1.0% rise in the discount rate could result in an impairment loss.

14. Leases

As lessee

(1) Components of right-of-use assets

The components of right-of-use assets are as follows:

The Group uses the underlying assets for leases primarily for business activities.

(Millions of yen)

	Type of underlying assets				Total
	Buildings and structures	Machinery, equipment and vehicles	Land	Others	
As of December 31, 2022	14,735	1,831	3,280	925	20,773
As of December 31, 2023	14,159	2,541	3,023	1,101	20,825

(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, 2022	Fiscal year ended December 31, 2023
Depreciation charge for right-of-use assets		
Underlying assets of buildings and structures	3,061	3,280
Underlying assets of machinery, equipment and vehicles	788	976
Underlying assets of land	253	146
Underlying assets of other assets	552	511
Total depreciation charge for right-of-use assets	4,656	4,915
Expenses relating to leases		
Interest expense on lease liabilities	253	283
Expenses relating to short-term leases	444	238
Expenses relating to leases of low-value assets	707	608
Total expenses relating to leases	1,406	1,130
Cash outflow for leases	6,473	7,108
Additions to right-of-use assets	3,780	5,006

A maturity analysis of lease liabilities is as stated in “35. Financial instruments.”

(3) Extension options and termination options

In the Group, each company is responsible for managing its own lease contracts, and the terms and conditions of leases are individually negotiated and vary widely. Extension options and termination options are mainly included in real estate leases. Most of these leases contain extension options for one year or the same period as the original contract and early termination options exercisable upon prior written notice to the other party. These options are used as necessary to make effective use of lease contracts in business activities.

15. Subsidiaries and associates

The information is as stated in “I. Overview of Company, 4. Subsidiaries and Associates.”

16. Investments accounted for using the equity method

The carrying amount of investments in an individually immaterial jointly controlled entity and financial information on such entity are as follows. These amounts take into account the Group's equity ratio.

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Total carrying amount	7,153	7,192

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Profit	714	1,425
Other comprehensive income	(9)	55
Comprehensive income	705	1,480

17. Income taxes

(1) Deferred tax assets and liabilities

Deferred tax assets and liabilities are primarily attributable to the following items:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Deferred tax assets		
Inventories	1,815	1,986
Provision for warranties for completed construction	1,744	2,865
Retirement benefit liability	1,678	3,356
Lease liabilities	5,272	5,149
Tax loss carry forward	710	667
Provision for bonuses	2,429	2,396
Unrealized gain on inventories	2,284	2,824
Others	10,304	12,248
Total deferred tax assets	26,240	31,494
Deferred tax liabilities		
Equity instruments	(66)	(109)
Retained earnings of subsidiaries	(4,491)	(5,641)
Right-of-use assets	(5,115)	(4,982)
Others	(5,283)	(6,058)
Total deferred tax liabilities	(14,956)	(16,792)
Net deferred tax assets	11,284	14,701

The changes in net deferred tax assets or liabilities are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Balance at beginning of period	12,263	11,284
Recognized through profit or loss	753	2,210
Recognized through other comprehensive income (Note 1)	(15)	1,245
Increase (decrease) by business combination (Note 2)	(1,094)	-
Others	(622)	(38)
Balance at end of period	11,284	14,701

Notes: 1. Major changes in the fiscal year ended December 31, 2022, include a decrease of ¥46 million in deferred tax assets related to retirement benefit liability.
Major changes in the fiscal year ended December 31, 2023, include an increase of ¥1,347 million in deferred tax assets related to retirement benefit liability.
2. Major changes in the fiscal year ended December 31, 2022, include an increase of ¥1,201 million in deferred tax liabilities related to fixed assets included in others that were recognized as a result of the acquisition of Hayward Gordon Holdings, L.P. and its six subsidiaries.

The Group considers the probability that a portion of or all of the deductible temporary differences or tax loss carry-forward can be utilized against future taxable profits in recognition of deferred tax assets. In assessing the recoverability of deferred tax assets, the Group considers the scheduled reversal of deferred tax liabilities, projected future taxable profit, and tax planning strategies. For the recognized deferred tax assets, the Group determined that it is probable that the tax benefits can be utilized 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.

Deductible temporary differences and tax loss carry forward for which no deferred tax assets were recognized are as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Deductible temporary differences	8,887	6,791
Tax loss carry forward	692	546

The tax loss carry-forward for which no deferred tax asset was recognized will expire as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
1st year	127	128
2nd year	89	97
3rd year	107	51
4th year	50	2
5th year and thereafter	318	265
Total	692	546

The aggregate amount of taxable temporary differences associated with investments in subsidiaries and associates for which no deferred tax liabilities were recognized were ¥5,607 million and ¥8,648 million as of December 31, 2022 and 2023, respectively. The Group did not recognize deferred tax liabilities for these temporary differences since it could control the timing of the reversal of these temporary differences, and it was probable that the temporary differences would not reverse in the foreseeable future.

(2) Income tax expense

The components of income tax expense are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Current income tax expense	17,529	23,143
Deferred tax expense		
Origination and reversal of temporary differences	(1,025)	33
Assessment of recoverability of deferred tax assets	271	(2,243)
Total	16,775	20,933

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, 2022 and 2023.

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, 2022	Fiscal year ended December 31, 2023
Effective statutory tax rate	30.6	30.6
Expenses not deductible for tax purposes	2.1	3.7
Income not taxable for tax purposes	(3.3)	(1.7)
Differences from applicable tax rates for overseas subsidiaries	(5.7)	(5.7)
Share of profit (loss) of investments accounted for using equity method	(0.0)	0.0
Unrecognized deferred tax assets	(0.7)	(1.5)
Others	1.2	(0.7)
Average effective tax rate	24.1	24.7

In December 2021, OECD announced the Global Anti-Base Erosion Pillar Two Model Rules (global minimum taxation) of the OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (BEPS). In Japan, a tax reform act including a global minimum taxation system was enacted in March 2023, which will come into effect from the fiscal year starting on or after April 1, 2024. At present, while we are unable to reasonably estimate the impact that the global minimum taxation system will have on the Company’s consolidated financial statements, we do not expect it to be material. The Group is working with tax experts to study this impact.

18. Other assets

The components of other assets are as follows:

(1) Current assets

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Consumption taxes receivable	13,263	12,847
Prepaid expenses	5,189	5,084
Advance payments	7,202	11,454
Others	801	1,362
Total	26,456	30,747

(2) Non-current assets

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Defined benefit asset	8,860	5,346
Long-term prepaid expenses	1,787	1,681
Others	-	1,419
Total	10,648	8,447

19. Trade and other payables

The components of trade and other payables are as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Accounts and notes payable - trade and electronically recorded obligations	174,675	153,226
Other payables	20,716	19,141
Total	195,391	172,368

20. Bonds, borrowings, and lease liabilities

The components of bonds, borrowings, and lease liabilities are as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023	Average interest rate (%) (Note 1)	Payment due
Short-term borrowings	27,480	23,621	6.15	-
Current portion of long-term borrowings	13,530	2,437	2.91	-
Current portion of bonds payable	-	-	-	-
Long-term borrowings	27,815	68,701	1.93	2030
Lease liabilities	20,506	20,489	-	2024–2033
Bonds payable	30,000	30,000	-	-
Total	119,333	145,249		
Current liabilities	46,772	31,953		
Non-current liabilities	72,560	113,296		
Total	119,333	145,249		

Notes: 1. "Average interest rate" represents the weighted-average rate applicable to the ending balances of borrowings. Borrowings hedged by derivative transactions, such as interest rate swaps, are calculated using the interest rates under such derivative transactions to avoid interest rate fluctuation risks.

2. The details of assets pledged as collateral are stated in "39. Collaterals."

The issuance conditions for bonds are as follows:

(Millions of yen)

Company name	Name of bond	Date of issue	As of December 31, 2022	As of December 31, 2023	Interest rate (%)	Collaterals	Payment due
The Company	Unsecured straight bond (Series 10)	October 22, 2020	10,000	10,000	0.19	None	October 22, 2025
The Company	Unsecured straight bond (Series 11)	October 14, 2022	5,000	5,000	0.24	None	October 14, 2025
The Company	Unsecured straight bond (Series 12)	October 14, 2022	15,000	15,000	0.44	None	October 14, 2027
	Total		30,000	30,000	-	-	-

21. Other financial liabilities

The components of other financial liabilities are as follows:

(1) Current liabilities

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Guarantee deposits received	45	469
Others	387	291
Total	432	760

(2) Non-current liabilities

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Long-term guarantee deposits received	93	-
Others	50	492
Total	144	492

22. Other liabilities

The components of other current liabilities and other non-current liabilities are as follows:

(1) Current liabilities

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Accrued expenses	8,817	9,710
Refund liabilities	2,024	55
Deposits received	5,799	4,938
Short-term employee benefit liabilities	20,174	22,309
Others	7,596	6,669
Total	44,411	43,682

(2) Non-current liabilities

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Long-term employee benefit liabilities	2,256	2,110
Others	819	951
Total	3,076	3,062

23. Provisions

The changes in provisions are as follows:

(Millions of yen)

	Provision for product warranties	Provision for construction losses	Asset retirement obligations	Provision for warranties for completed construction
As of January 1, 2022	4,802	6,418	2,488	3,548
Increase during the period	3,393	5,215	89	2,695
Increase (decrease) by business combination	35	-	-	-
Increase due to passage of time	-	-	20	-
Decrease during the period (used for intended purpose)	(3,712)	(6,060)	-	(2,429)
Decrease during the period (reversal of provisions)	(188)	(331)	(7)	(1,020)
Exchange differences on translation	79	229	56	84
As of December 31, 2022	4,410	5,471	2,647	2,878
Increase during the period	3,557	5,502	23	3,062
Increase due to passage of time	-	-	13	-
Decrease during the period (used for intended purpose)	(3,366)	(6,031)	(46)	(2,832)
Decrease during the period (reversal of provisions)	(74)	(211)	(83)	(375)
Exchange differences on translation	70	18	34	52
As of December 31, 2023	4,597	4,749	2,588	2,785

Provisions in the consolidated financial statements are as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Current liabilities	12,760	12,132
Non-current liabilities	2,647	2,588
Total	15,408	14,721

1. Provision for product warranties

To cover liability for defect warranty on sales contracts, the Company provides for an estimated amount of guarantee expenses obtained by multiplying the amount of product sales by a rate of incidence computed based on past results. The expenditure is usually expected to incur after a period of one to three years after the end of the fiscal year.

2. Provision for construction losses

To cover possible losses on contracted construction projects, the Company provides an estimated amount of losses for uncompleted projects deemed to have a high possibility of incurring losses that can be reasonably estimated at the fiscal year-end.

The timing of expenditures is affected by the progress of the project and other factors.

3. Asset retirement obligations

The obligations mainly consist of asset removal costs associated with restoration obligations under lease contracts for the Company’s offices. These costs are usually expected to be incurred after one year or more from the end of the fiscal year but will be affected by future business plans.

4. Provision for warranties for completed construction

To cover liability for defect warranty on completed construction, the Company provides for an estimated amount of guarantee expenses obtained by multiplying the revenue of completed construction contracts by a rate of incidence based on past results. The expenditure is usually expected to incur after a period of one to three years after the end of the fiscal year.

24. Employee benefits

The Company and some domestic subsidiaries have a defined benefit corporate pension plan, a lump-sum payment plan, and a defined contribution pension plan to provide for the payment of retirement benefits to employees. Retirees of the Company and some domestic subsidiaries have the option to receive retirement benefits in the form of either a lump-sum payment or pension payments from a corporate pension fund. The amount of benefits is principally calculated based on the cumulative number of points awarded under the point-based benefits system. The points consist of “post qualification points,” which are awarded based on the role and grade of each employee and “interest points,” which are awarded based on market interest rate movements. In addition, the Company and some domestic subsidiaries have multi-employer plans. As the amount of pension assets for these plans can be reasonably calculated, they are included in the note regarding defined benefit plans.

The Company’s pension plans are operated by a corporate pension fund legally separate from the Company in accordance with laws and regulations. The board of the corporate pension fund and pension management trustee are required by laws and regulations to act in the best interest of plan participants and are responsible for managing plan assets in accordance with prescribed policies.

Meanwhile, some foreign subsidiaries have defined benefits and defined contribution pension plans.

Plan assets are basically managed soundly but are exposed to investment risks related to financial instruments. In addition, since defined benefit obligations are measured based on various actuarial assumptions related to pension accounting, such as discount rates, they are exposed to risks of changes in these assumptions.

(1) Defined benefit plans

(i) Reconciliation of present value of defined benefit obligations and plan assets

The relationship between the present value of defined benefit obligations and plan assets, and retirement benefit liability and asset recognized in the consolidated statement of financial position is as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Present value of funded defined benefit obligations	64,369	67,384
Plan assets	(72,381)	(77,753)
Subtotal	(8,011)	(10,369)
Effect of plan asset ceiling	-	5,483
Present value of unfunded defined benefit obligations	7,531	7,506
Net defined benefit liability (asset) recognized in the consolidated statement of financial position	(480)	2,620
Retirement benefit liability	8,380	7,967
Defined benefit asset	8,860	5,346

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, 2022	Fiscal year ended December 31, 2023
Balance of present value of defined benefit obligations at beginning of period	79,154	71,901
Service cost	3,013	2,893
Interest cost	1,306	2,429
Remeasurements		
Actuarial gain or loss (demographic assumptions)	(1,461)	(87)
Actuarial gain or loss (financial assumptions)	(12,655)	928
Actuarial gain or loss (others)	(276)	97
Benefits paid	(5,439)	(5,900)
Others	8,260	2,628
Balance of present value of defined benefit obligations at end of period	71,901	74,890

The weighted-average durations of defined benefit obligations of the Company and its consolidated subsidiaries as of December 31, 2022 and 2023 were 9.8 years and 9.5 years, respectively.

(iii) Reconciliation of plan assets

The changes in plan assets are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Balance of plan assets at beginning of period	78,239	72,381
Interest income	1,256	2,341
Gain or loss on remeasurement		
(excluding amounts included in interest income)	(12,389)	3,508
Employers' contributions	1,792	2,000
Benefits paid	(4,011)	(4,559)
Others	7,494	2,080
Balance of fair value of plan assets at end of period	72,381	77,753

We periodically examine the pension financing and recalculate the amount of contributions in accordance with the rules of the corporate pension fund to keep the balance of pension finance in preparation for the appropriation for and shortage in future payments of benefits. The Group plans to pay contributions of ¥2,050 million to the defined benefit plans in the fiscal year ending December 31, 2024.

(iv) Changes in the effect of plan asset ceiling

The changes in the effect of plan asset ceiling are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Effect of plan asset ceiling at beginning of period	-	-
Interest income	-	13
Gain or loss on remeasurement		
Changes in the effect of plan asset ceiling	-	5,469
Others	-	0
Effect of plan asset ceiling at end of period	-	5,483

As future contributions to defined benefit plans will not be reduced or refunded, economic benefits are not available. Accordingly, a plan asset ceiling is set and liability is calculated for some of the Group's defined benefit plans.

(v) Major components of plan assets

The components of the fair value of plan assets are as follows:

(Millions of yen)

	As of December 31, 2022			As of December 31, 2023		
	Quoted prices in active markets		Total	Quoted prices in active markets		Total
	Quoted	None		Quoted	None	
Shares	462	1,264	1,727	606	-	606
Debt securities	-	34,319	34,319	-	30,949	30,949
Life insurance general account	-	12,432	12,432	-	12,694	12,694
Others	8,441	15,460	23,901	8,433	25,068	33,501
Total	8,903	63,477	72,381	9,039	68,713	77,753

Note: Others consist of cash equivalents and jointly operated trusts. Although there are no quoted market prices for the jointly operated trusts in active markets, investments held by the jointly operated trusts include listed shares and listed bonds that have quoted market prices in active markets.

The Group's plan assets are managed to optimize the investment returns at acceptable risks to ensure future payments of benefits to employees. Plan assets are mainly invested in a broadly diversified portfolio of Japanese and foreign stocks and debt securities. The Group has built an efficient basic portfolio (combination of asset allocation) by estimating the expected return and risk and correlation coefficient of stocks, debt securities, and other instruments. The Group also strives to maintain the asset allocation based on the basic portfolio over the medium to long term by rebalancing it as needed.

(vi) Key actuarial assumptions

Key actuarial assumptions are as follows:

	As of December 31, 2022	As of December 31, 2023
Discount rate		
The Company and domestic subsidiaries	Mainly 1.1%	Mainly 1.3%
Overseas subsidiaries	Mainly 5.2%	Mainly 4.9%

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, 2022	As of December 31, 2023
0.5% increase in discount rate	2,740	2,900
0.5% decrease in discount rate	(3,480)	(3,529)

Note: In calculating defined benefit obligations in the sensitivity analysis, the same method is applied to calculate defined benefit obligations recognized in the consolidated statement of financial position. The sensitivity analysis is conducted at the financial reporting date based on the movement of reasonably estimable assumptions. The sensitivity analysis assumes that all actuarial assumptions other than those subject to the analysis are constant, but in reality, changes in other actuarial assumptions may affect the analysis result.

(2) Defined contribution plan

The amounts of expenses recognized for the defined contribution plan for the fiscal years ended December 31, 2022 and 2023 were ¥7,965 million and ¥8,570 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, 2022 and 2023 were ¥150,727 million and ¥162,107 million, respectively, and were recognized in "cost of sales" and "selling, general and administrative expenses" in the consolidated statement of profit or loss.

25. Equity and other equity items

(1) Share capital

(i) Number of shares authorized

The number of shares authorized in the fiscal years ended December 31, 2022 and 2023 was 200,000 thousand common shares, respectively.

(ii) Shares Issued

The changes in shares issued are as follows:

(Shares)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Number of shares issued		
Balance at beginning of period	95,513,633	92,086,015
Increase during the period	85,782	263,067
Decrease during the period	3,513,400	-
Balance at end of period	92,086,015	92,349,082

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, 2022, consisted of an increase of 53,200 shares due to the exercise of subscription rights to shares and an increase of 32,582 shares due to the issuance of new shares as restricted stock compensation.

3. The increase in shares issued during the fiscal year ended December 31, 2023, consisted of an increase of 50,200 shares due to the exercise of subscription rights to shares, an increase of 35,667 shares due to the issuance of new shares as restricted stock compensation, and an increase of 177,200 shares due to the issuance of new shares as performance-linked stock compensation.

4. The decrease in shares issued during the fiscal year ended December 31, 2022, was due to a decrease of 3,513,400 shares from the cancellation of treasury shares by a resolution of the Board of Directors.

(iii) Treasury shares

The changes in treasury shares are as follows:

(Shares)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Balance at beginning of period	3,536,073	24,422
Increase during the period	1,809	2,109
Decrease during the period	3,513,460	-
Balance at end of period	24,422	26,531

Notes: 1. The increase in treasury shares during the fiscal year ended December 31, 2022, was due to an increase of 149 shares from the acquisition without compensation under the restricted stock compensation scheme and an increase of 1,660 shares from the purchase of shares of less than one unit.

2. The increase in treasury shares during the fiscal year ended December 31, 2023, was due to an increase of 279 shares from the acquisition without compensation under the restricted stock compensation scheme and an increase of 1,830 shares from the purchase of shares of less than one unit.

3. The decrease in treasury shares during the fiscal year ended December 31, 2022, was due to a decrease of 60 shares from the sale of shares of less than one unit and a decrease of 3,513,400 shares from the cancellation of treasury shares by a resolution of the Board of Directors.

(2) Surplus

(i) Capital surplus

The Companies Act provides that at least half of the amount paid in or delivered upon the issuance of shares shall be included in share capital, with the remainder included in legal capital surplus, a component of capital surplus. Legal capital surplus may be included in share capital by resolution of a general meeting of shareholders.

(ii) Retained earnings

The Companies Act provides that an amount equal to 10% of decrease in surplus due to the distribution of surplus shall be appropriated as a legal capital surplus or legally retained earnings until the total amount of legal capital surplus and legally retained earnings included in retained earnings equals 25% of share capital. The amount accumulated in legal retained earnings may be used to offset the deficit. Further, legally retained earnings may be reversed by a resolution of a general meeting of shareholders.

The amount available for distribution under the Companies Act is calculated based on the amount of retained earnings recorded in the Company's accounting records prepared in accordance with accounting principles generally accepted in Japan.

The Companies Act also sets certain limits on the calculation of amounts available for distribution, and therefore the Company distributes retained earnings within those limits.

(3) Details and purpose of other components of equity

(i) Exchange differences in the translation of foreign operations

These are exchange differences resulting from the translation of financial statements of foreign operations.

(ii) Cash flow hedges

This is the effective portion of gains or losses on hedging instruments in a cash flow hedge.

(iii) Net change in fair value of financial assets (equity financial assets) designated as measured at fair value through other comprehensive income

This is the cumulative amount of net change in the fair value of an equity financial asset measured at fair value through other comprehensive income that occurred before the asset was derecognized or its fair value decreased significantly.

(iv) Remeasurements of defined benefit plans

This is the variable portion arising from remeasurements of defined benefit plans.

26. Dividends

Dividends paid in each fiscal year are as follows:

Fiscal year ended December 31, 2022

Date of resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend paid per share (Yen)	Record date	Effective date
March 29, 2022 Ordinary General Meeting of Shareholders	Common shares	10,393	113.00	December 31, 2021	March 30, 2022
August 12, 2022 Board of Directors	Common shares	7,823	85.00	June 30, 2022	September 13, 2022

Fiscal year ended December 31, 2023

Date of resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend paid per share (Yen)	Record date	Effective date
March 29, 2023 Ordinary General Meeting of Shareholders	Common shares	9,942	108.00	December 31, 2022	March 30, 2023
August 14, 2023 Board of Directors	Common shares	9,000	97.50	June 30, 2023	September 13, 2023

Dividends with record dates falling in the fiscal year but whose effective dates fall in the following fiscal year are as follows:

Fiscal year ended December 31, 2022

Date of resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend paid per share (Yen)	Record date	Effective date
March 29, 2023 Ordinary General Meeting of Shareholders	Common shares	9,942	108.00	December 31, 2022	March 30, 2023

Fiscal year ended December 31, 2023

Date of resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend paid per share (Yen)	Record date	Effective date
March 27, 2024 Ordinary General Meeting of Shareholders	Common shares	12,140	131.50	December 31, 2023	March 28, 2024

27. Share-based payment

The Group has adopted a share-based compensation scheme for its Directors, Executive Officers, and employees intending to incentivize them to contribute to sustainable improvements of its corporate value and to share value with its shareholders.

(1) Stock options

(i) Overview of the stock option plan

The Group has adopted a stock option plan. The Group grants stock options to its Directors, Executive Officers, and employees by resolution of the Board of Directors based on the details approved at a general meeting of shareholders. The exercise period of stock options is set forth in the allotment agreements. The options shall expire if they are not exercised within the set exercise period.

The Company's stock options are accounted for as equity-settled share-based payments.

(ii) Details of stock options

	Grant date	Number granted (Shares)	Exercise price (Yen)	Vesting conditions	Exercise period
1st subscription rights to shares	November 5, 2009	244,600	1	(Note)	From July 1, 2011 to November 5, 2024
3rd subscription rights to shares	September 27, 2011	323,000	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, (2) Subscription Rights to Shares."

(iii) Changes in the number of stock options and weighted-average exercise price

(Shares)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Outstanding at beginning of period	242,500	189,300
Expired	-	-
Exercised	53,200	50,200
Forfeited due to expiration	-	-
Outstanding at end of period	189,300	139,100
Exercisable at end of period	189,300	139,100

Notes: 1. The number of stock options is presented by converting them into the number of equivalent shares.

2. The weighted-average exercise price is 1 yen for all stock options.

3. The weighted-average share prices on the exercise dates in the fiscal years ended December 31, 2022 and 2023 were ¥5,863 and ¥5,476, respectively.

4. The weighted-average remaining contractual life of the share options unexercised for the year-end in the fiscal years ended December 31, 2022 and 2023 was 5.8 years and 4.8 years, respectively.

(2) Restricted stock compensation scheme

(i) Overview of the restricted stock compensation scheme

Under this scheme, which requires continuous service as Directors of the Company for a certain period, the eligible person shall pay all of the monetary remuneration claims paid by the Company in the form of property contributed in kind and, in exchange, receive common shares issued by the Company. The issuance of the Company's common shares under the scheme is subject to the execution of an agreement between the Company and the eligible Directors. The agreement specifies that (i) the eligible Directors shall not transfer the shares to a third party, create security interest on, or dispose of the shares in any other way for a certain period; and that (ii) the Company shall acquire such shares without consideration upon the occurrence of certain events. For non-resident eligible Directors, in lieu of the restricted stock compensation scheme, the Company will pay monetary compensation with the same economic value as such compensation.

The transactions under the restricted stock compensation scheme are equity-settled involving the distribution of the Company's common shares or cash-settled in the form of cash distribution. The former is accounted for as equity-settled share-based payments, and the latter as cash-settled share-based payments.

(ii) Number and fair value of shares granted during the period

	Grant date	Number granted (Shares)	Fair value at grant date (Yen)
Restricted stock compensation	May 10, 2023	35,667	5,860

Notes: 1. Fair values of shares granted are measured based on observable market prices.
2. The expected dividends are not incorporated into the measurement of fair values.

(3) Performance-linked stock compensation scheme

(i) Overview of the performance-linked stock compensation scheme

Under this scheme, which requires continuous service as Directors of the Company for a certain period, as well as the attainment of the Company's business performance targets prescribed by the Company's Board of Directors, the eligible person shall pay all of the monetary remuneration claims paid by the Company in the form of property contributed in kind, and in exchange, receive common shares issued by the Company.

With respect to the performance-linked stock compensation, the degree of achievement of performance targets is reviewed at a meeting of officers after the end of the performance evaluation period, and a resolution is made on the actual amount to be paid. The amount equivalent to 40% of the compensation shall be paid in cash in consideration of income taxes borne by officers and employees. For non-resident eligible Directors, in lieu of the performance-linked stock compensation, the Company will pay monetary compensation with the same economic value as the relevant stock compensation.

The transactions under the performance-linked stock compensation scheme are equity-settled involving the distribution of the Company's common shares or cash-settled in the form of cash distribution. The former is accounted for as equity-settled share-based payments, and the latter as cash-settled share-based payments.

(ii) Number and fair value of shares granted during the period

	Grant date	Number granted (Shares)	Fair value at grant date (Yen)
Performance-linked stock compensation	May 10, 2023	177,200	5,860

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.

(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, 2022	Fiscal year ended December 31, 2023
(i) Cash-settled share-based payments		
Cost of sales	1	5
Selling, general and administrative expenses	150	249
Other non-current liabilities	623	158
(ii) Equity-settled share-based payments		
Cost of sales	3	10
Selling, general and administrative expenses	415	544
Other expenses	1	0

The intrinsic value associated with (i) cash-settled share-based payments vested at the end of the period during the fiscal years ended December 31, 2022 and 2023 was ¥30 million and ¥43 million, respectively.

28. Revenue

(1) Disaggregation of revenue

As stated in "5. Operating segments," the Group has five reportable segments: Building Service & Industrial, Energy, Infrastructure, Environmental Solutions, and Precision Machinery. 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.

Additionally, the Company has changed its reportable segments from the fiscal year under review. For details, please refer to "V. Financial Information, 1. Consolidated Financial Statements, (1) Notes to the Consolidated Financial Statements, 5. Operating segments."

(Millions of yen)

Reportable segments	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Building Service & Industrial	193,529	222,181
Energy	143,605	167,229
Infrastructure	46,258	50,178
Environmental Solutions	73,738	71,540
Precision Machinery	222,259	246,998
Others	1,478	1,199
Total	680,870	759,328

Note: Above amounts are exclusive of intra-group transactions.

(2) Contract balance

The balance of receivables from contracts with customers, contract assets, contract liabilities, and refund liabilities is as follows:

(Millions of yen)

	As of January 1, 2022	As of December 31, 2022	As of December 31, 2023
Receivables from contracts with customers	131,529	152,591	160,280
Contract assets	86,887	100,420	99,901
Contract liabilities	49,771	63,168	92,918
Refund liabilities	1,884	2,024	55

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, 2022 and 2023 were ¥287 million and ¥177 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, 2022 and 2023, the amounts included in the beginning balances of contract liabilities were ¥43,155 million and ¥52,925 million, respectively.

The amount of variable consideration is measured against discounts, late charges to the extent that it is highly probable that no significant reversals of cumulative amount of revenue recognized 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, 2022	As of December 31, 2023
Building Service & Industrial	62,765	60,693
Energy	147,500	210,159
Infrastructure	59,522	67,409
Environmental Solutions	317,491	346,965
Precision Machinery	230,811	205,462
Others	67	33
Total	818,158	890,723

These transactions mainly fall under long-term comprehensive contracts for custom pumps as well as compressors and turbines in the Building Service & Industrial, Energy, and Infrastructure, as well as such contracts in the Environmental Solutions segment, 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.

Building Service & Industrial, Energy, and Infrastructure: within 3 years

Environmental Solutions: within 20 years

Precision Machinery: within 1 year

(4) Assets recognized from costs incurred to obtain or fulfill a contract

Of the incremental costs incurred to obtain contracts with customers and the costs to fulfill contracts related directly to the contracts, the Group recognizes the portion that it believes is collectible as assets and records such portion as other assets in the consolidated statement of financial position. The incremental costs incurred to obtain contracts refer to the costs that the Group has incurred to obtain contracts with customers but would not have incurred if the contract had not been obtained.

The incremental costs incurred to obtain contracts capitalized at the Group are primarily sales commissions paid to distributors to acquire sales contracts. The costs incurred to fulfill contracts are primarily bid preparation expenses and expenses required for development and research activities prior to a public announcement. If the amortization period of the asset to be recognized is one year or less, the incremental cost of obtaining contracts is expensed as incurred, using the practical expedient.

(Millions of yen)

	As of December 31, 2022	As of December 31, 20223
Assets recognized from costs incurred to obtain contracts	205	132
Assets recognized from costs incurred to fulfill contracts	-	-
Total	205	132

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, 2022 and 2023 were ¥148 million and ¥165 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, 2022	Fiscal year ended December 31, 2023
Personnel expenses	56,798	62,581
R&D expenses	15,264	18,281
Packing and transportation costs	7,570	7,684
Depreciation and amortization	8,502	10,396
Outsourcing expenses	13,129	13,580
Other expenses	36,518	43,323
Total	137,784	155,847

30. Other income and expenses

The components of other income and expenses are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Other income		
Gain on disposal of non-current assets	131	197
Cancellation penalty income	-	574
Others	976	1,953
Total	1,107	2,725
Other expenses		
Loss on disposal of non-current assets	207	338
Impairment losses	1,848	2,143
Extra retirement payments	871	-
Others	997	1,080
Total	3,925	3,562

31. R&D expenses

The R&D expenses recognized during the fiscal years ended December 31, 2022 and 2023 were ¥15,264 million and ¥18,281 million, respectively.

32. Finance income and finance costs

The components of finance income are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Interest income		
Financial assets measured at amortized cost	607	1,301
Dividend income		
Financial assets measured at fair value through other comprehensive income	5	8
Foreign exchange gain	-	181
Gain on net monetary position	292	61
Others		
Financial assets measured at fair value through profit or loss	50	3
Others	0	87
Total	957	1,643

The components of finance costs are as follows:

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Interest expenses		
Financial liabilities measured at amortized cost	2,072	3,640
Lease liabilities	253	283
Foreign exchange loss	215	-
Others		
Financial assets measured at fair value through profit or loss	-	21
Others	221	416
Total	2,762	4,361

33. Earnings per share

(1) Basic earnings per share are calculated as follows:

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Profit attributable to owners of parent (Millions of yen)	50,488	60,283
Weighted-average number of common shares outstanding during the period (Thousands of shares)	92,029	92,226
Basic earnings per share (Yen)	548.61	653.64

(2) Diluted earnings per share are calculated as follows:

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Profit attributable to owners of parent (Millions of yen)	50,488	60,283
Adjustment to profit (Millions of yen)	-	-
Profit used to calculate diluted earnings per share (Millions of yen)	50,488	60,283
Weighted-average number of common shares outstanding during the period (Thousands of shares)	92,029	92,226
Number of shares adjusted for stock options (Thousands of shares)	213	153
Average number of diluted common shares during the period (Thousands of shares)	92,243	92,380
Diluted earnings per share (Yen)	547.34	652.55

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, 2022	Fiscal year ended December 31, 2023
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans		
Amount arising during the period	2,004	(2,898)
Before tax effect adjustment	2,004	(2,898)
Tax effect	(492)	911
After tax effect adjustment	1,512	(1,987)
Net change in financial assets measured at fair value through other comprehensive income		
Amount arising during the period	(63)	137
Before tax effect adjustment	(63)	137
Tax effect	19	(41)
After tax effect adjustment	(44)	95
Share of other comprehensive income of investments accounted for using equity method		
Amount arising during the period	(9)	55
Items that may be reclassified to profit or loss		
Cash flow hedges		
Amount arising during the period	(21)	(0)
Reclassification adjustments	(40)	20
Before tax effect adjustment	(62)	20
Tax effect	2	(4)
After tax effect adjustment	(59)	15
Exchange differences on translation of foreign operations		
Amount arising during the period	14,497	10,227
Total other comprehensive income	15,896	8,405

35. Financial instruments

(1) Capital management

The Group manages its capital to maximize its corporate value through sustainable growth. The key indicators used by the Group in capital management are Return on Invested Capital (ROIC), Return on Equity (ROE), and Debt-to-Equity ratio. In addition to these indicators, the Group also uses equity attributable to owners of the parent and its level as management indicators.

	As of December 31, 2022	As of December 31, 2023
ROIC (Note 1)	11.2%	12.2%
ROE (Note 2)	15.0%	15.7%
Debt-to-equity ratio	0.33x	0.35x

Notes: 1. ROIC = NOPLAT (Net operating profit less adjusted taxes) / (Invested capital)
Invested capital = Interest-bearing debt (the average of beginning and ending balances) + Equity attributable to owners of the parent (the average of beginning and ending balances)
2. ROE = Profit attributable to owners of parent ÷ Equity attributable to owners of the parent (the average of beginning and ending balances)

(2) Management of financial risks

The Group is exposed to financial risks (credit risk, liquidity risk, and market risk) that may arise in the course of its business activities. In order to avoid or mitigate such financial risks, we manage risks in accordance with certain policies. In addition, the Group's policy is to use derivatives to avoid risk and not for speculative purposes.

(i) Management of credit risk

The Group's trade receivables are exposed to customer credit risk. In order to mitigate such risk, the Company and its consolidated subsidiaries follow their internal regulations, regularly monitor the conditions of principal counterparties, and manage the collection status and balances by counterparty to early identify and mitigate collectability concerns due to a decline in their financial condition. The Group secures collateral for transactions with some of the counterparties.

The Group manages credit risk so that it is not excessively concentrated on a specific counterparty.

The maximum exposure to credit risks on the balance sheet date is the carrying amount of each financial asset after impairment. The respective amount on each reporting date is as follows:

(Exposure to credit risk)

(Millions of yen)

	Financial assets measured at 12-month expected credit losses	Financial assets measured at an amount equal to lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly	Credit impaired financial assets	Financial assets always measured at an amount equal to lifetime expected credit losses	
As of December 31, 2022	6,137	-	3,802	253,278	263,218
As of December 31, 2023	6,042	-	4,020	263,506	273,569

The outstanding guarantee obligation is as stated in "40. Contingency" is the Group's maximum exposure to credit risks.

The changes in the Group's allowance for doubtful accounts are as follows. In the event of impairment of trade and other receivables, the Group records allowance for doubtful accounts without directly reducing the carrying amount.

(Millions of yen)

Allowance for doubtful accounts	Financial assets measured at 12-month expected credit losses	Financial assets measured at an amount equal to lifetime expected credit losses			Total
		Financial assets whose credit risk has increased significantly	Credit impaired financial assets	Financial assets always measured at an amount equal to lifetime expected credit losses	
As of January 1, 2022	240	-	4,927	2,613	7,780
Increase during the period	60	-	889	694	1,643
Decrease during the period (used for intended purpose)	(9)	-	(1,478)	(275)	(1,763)
Decrease during the period (reversal of provisions)	(2)	-	(585)	(139)	(727)
Others	(0)	-	(288)	458	170
As of December 31, 2022	288	-	3,464	3,351	7,103
Increase during the period	150	-	362	309	822
Decrease during the period (used for intended purpose)	(0)	-	(0)	(579)	(579)
Decrease during the period (reversal of provisions)	(126)	-	(276)	(132)	(534)
Others	(2)	-	466	(178)	286
As of December 31, 2023	310	-	4,016	2,770	7,097

During the fiscal years ended December 31, 2022 and 2023, no significant changes in the total carrying amount of financial assets could affect the change in allowance for doubtful accounts.

(ii) Management of liquidity risk

The Group manages liquidity risk, which is the risk of default in fulfilling obligations under financial liabilities by cash or other financial assets, by having the Company's finance division prepare and update cash flow plans based on reports from each department as well as maintaining an adequate scale of liquidity on hand in accordance with the status of its business. In addition, to cover financial risk, we secure alternative liquidity mainly by executing commitment line contracts and overdraft contracts. To improve the efficiency of funds in the Group, the Group operates a cash management system (CMS) to concentrate funds to the Company.

The balances of major financial liabilities as of December 31, 2022 and 2023 by the due date are as shown below. Contractual cash flows are undiscounted cash flows, including interest expenses.

(Millions of yen)

Fiscal year ended December 31, 2022	Carrying amount	Total contractual cash flows	Due within one year	Due after one year through five years	Due after five years
Non-derivative financial liabilities					
Trade and other payables	195,391	195,391	195,391	-	-
Bonds and borrowings	98,826	101,907	56,245	45,662	-
Lease liabilities	20,506	22,019	7,033	12,065	2,920
Others	486	486	359	127	-
Total	315,212	319,805	259,029	57,855	2,920
Derivative financial liabilities					
Derivatives	90	90	90	-	-
Total	90	90	90	-	-

(Millions of yen)

Fiscal year ended December 31, 2023	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	172,368	172,368	172,368	-	-
Bonds and borrowings	124,760	128,220	42,474	65,460	20,286
Lease liabilities	20,489	21,657	6,849	11,918	2,889
Others	1,112	1,112	1,080	31	-
Total	318,729	323,358	222,772	77,410	23,175
Derivative financial liabilities					
Derivatives	141	141	141	-	-
Total	141	141	141	-	-

The line of credit held by the Group is as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Lines of credit	85,000	85,000
Used	-	-
Unused balance	85,000	85,000

(iii) Management of credit risk

i) Foreign exchange risk

The Group operates business globally, and the resulting trade receivables and payables denominated in foreign currencies are exposed to foreign exchange risk. The Group principally enters into derivative transactions, such as forward exchange contracts, to hedge the net position of trade receivables and payables denominated in foreign currencies.

The Group, including its consolidated subsidiaries, engages in and manages derivative transactions in accordance with its internal rules on the management of financial instruments.

(Exposure to foreign exchange risk)

The Group's exposure to foreign exchange risks (net amount) is as follows: The amounts for which foreign exchange risks are hedged using derivatives are excluded.

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
USD	4,468	9,225
EUR	3,003	12,360
CNY	3,830	5,328

(Sensitivity analysis of foreign exchange risk)

Regarding foreign-currency-denominated financial instruments held by the Group as of December 31, 2022 and 2023, the impact of a 10% appreciation in the Japanese yen on profit in the consolidated statement of profit or loss is as follows.

These amounts do not reflect the impact of the translation into Japanese yen of functional currency-denominated financial instruments, or assets and liabilities and revenue and expenses of foreign operations. This analysis assumes that all the other variables are constant.

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
USD	(350)	(756)
EUR	(219)	(884)
CNY	(283)	(396)

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, 2022	As of December 31, 2023
Borrowings with variable interest rates	36,801	21,183

(Sensitivity analysis of interest-rate fluctuation risk)

Regarding financial instruments held by the Group as of December 31, 2022 and 2023, the impact of a 1% increase in the interest rate on profit in the consolidated statement of profit or loss is as shown below.

In the sensitivity analysis, the net year-end balance of financial instruments exposed to interest-rate fluctuations is multiplied by 1% to calculate the impact. Financial instruments whose interest rates are virtually fixed through interest swap contracts are excluded. This analysis assumes that all the other variables are constant.

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Profit after tax	(277)	(153)

iii) Stock price fluctuation risk

Equity instruments held by the Group are principally shares in business partners and are exposed to market price fluctuation risk. For equity instruments, the Group regularly confirms the market prices and the financial condition of the issuers (counterparties). In addition, for securities other than those held to maturity, the Group constantly reviews the rationale of holding them based on the relationship with the counterparty.

There was no material stock price fluctuation risk for the fiscal years ended December 31, 2022 and 2023.

(3) Fair value of financial instruments

(i) Carrying amount and fair value of financial instruments

(Millions of yen)

	As of December 31, 2022		As of December 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets measured at amortized cost				
Cash and cash equivalents	116,137	116,137	148,059	148,059
Trade and other receivables	151,665	151,557	163,363	163,302
Other financial assets	6,955	6,608	6,744	6,339
Financial assets measured at fair value through other comprehensive income				
Other financial assets	2,225	2,225	2,781	2,781
Financial assets measured at fair value through profit or loss				
Other financial assets (membership rights)	268	268	231	231
Other financial assets (investment in investment limited partnerships)	509	509	488	488
Other financial assets (derivatives)	364	364	126	126
Total	278,126	277,671	321,796	321,330
Financial liabilities measured at amortized cost				
Trade and other payables	195,391	195,391	172,368	172,368
Bonds and borrowings	98,826	97,632	124,760	122,528
Other financial liabilities	486	484	586	586
Financial liabilities measured at fair value through profit or loss				
Other financial liabilities (derivatives)	90	90	141	141
Other financial liabilities (contingent considerations)	-	-	525	525
Total	294,795	293,599	298,381	296,148

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 material reclassifications among Levels 1, 2, and 3 during the fiscal years ended December 31, 2022 and 2023.

(iii) Financial instruments measured at amortized cost

Methods of measuring major financial instruments at amortized cost are as follows:

i) Cash and cash equivalents

Because these items are settled within short periods, their carrying amounts approximate their fair values.

ii) Trade receivables

Trade receivables are categorized into certain periods and discounted per item, taking into account the period to maturity and credit risk.

iii) Other receivables, and trade and other payables

Because these items are settled within short periods, their carrying amounts approximate their fair values.

iv) Other financial assets and other financial liabilities

The fair values of non-current items are calculated by estimating their future cash flows and discounting them to their present value using a discount rate that takes into account credit risk. Because current items are settled within short periods, their carrying amounts approximate their fair values.

v) Bonds and borrowings

The fair values of bonds and long-term borrowings with a contract term of over one year are calculated based on the present value, which is the total amount of principal and interest discounted at an assumed interest rate for a similar new borrowing.

For the fair value hierarchy of financial instruments measured at amortized cost, bonds and borrowings are classified as Level 2, and other financial assets and liabilities are classified primarily as Level 3. The fair values relating to the financial instruments classified as Level 3 are measured in accordance with relevant internal rules. In measuring fair values, valuation techniques and inputs that most appropriately reflect the nature, characteristics, and risks of the financial instruments to be measured are adopted.

(iv) Financial instruments measured at fair value

The methods for measuring major financial instruments at fair value are as follows:

i) Shares

Shares are included in other financial assets and are classified as equity instruments measured at fair value through other comprehensive income. As for shares, those classified as Level 1 are listed shares traded in active markets and are valued at the quoted prices on the securities exchange. Shares classified as Level 2 are unlisted shares and are valued using observable market data. Those classified as Level 3 are unlisted shares measured mainly using the valuation model based on net assets (a method to measure corporate value based on the net assets of the issuer adjusted as necessary arising from market value evaluation) or using fair values based on recently obtained appraisal reports by external appraisers (use of transaction approach and other methods).

ii) Membership rights

Membership rights are included in other financial assets and are classified as financial assets measured at fair value through profit or loss. Their fair values are mainly based on quoted market prices.

iii) Investment limited partnerships

Investments in limited liability partnerships for investment are included in other financial assets and are calculated based on the amount equivalent to the interests in partnership assets.

iv) Derivative assets and liabilities

Derivative assets and derivative liabilities are included in other financial assets and other financial liabilities, respectively, and are classified as financial assets and liabilities measured at fair value through profit or loss. Derivatives are mainly transactions related to forward exchange contracts and interest rate swaps, and their fair values are calculated based on observable market data presented by counterparty financial institutions.

v) Contingent considerations

Contingent considerations are included in other financial liabilities and are classified as financial liabilities measured at fair value through profit or loss. Their fair values are calculated by estimating the amount of considerations to be paid, taking into account future operating results and other relevant factors.

Fair value hierarchy of financial instruments measured at fair value is as follows:

As of December 31, 2022

(Millions of yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through other comprehensive income				
Other financial assets (shares)	-	-	2,225	2,225
Financial assets measured at fair value through profit or loss				
Other financial assets (membership rights)	-	268	-	268
Other financial assets (investment in investment limited partnerships)	-	-	509	509
Derivative assets	-	364	-	364
Total	-	633	2,734	3,368
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	-	90	-	90
Total	-	90	-	90

As of December 31, 2023

(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)	128	-	2,653	2,781
Financial assets measured at fair value through profit or loss				
Other financial assets (membership rights)	-	231	-	231
Other financial assets (investment in investment limited partnerships)	-	-	488	488
Derivative assets	-	126	-	126
Total	128	358	3,142	3,628
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	-	141	-	141
Contingent considerations	-	-	525	525
Total	-	141	525	666

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)

Financial assets	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Balance at beginning of period	2,388	2,734
Gain or loss	(33)	23
Profit or loss (Note 1)	32	(21)
Other comprehensive income (Note 2)	(65)	44
Purchase	575	438
Sale	(195)	(4)
Others	-	(34)
Exchange differences on translation of foreign operations	0	(15)
Balance at end of period	2,734	3,142

(Millions of yen)

Financial liabilities	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Balance at beginning of period	-	-
Increase due to business combinations	-	529
Exchange differences on translation of foreign operations	-	(4)
Balance at end of period	-	525

Notes: 1. Gain or loss included in profit or loss is related to financial assets measured at fair value through profit or loss and is recognized in “finance income” or “finance costs” in the consolidated statement of profit or loss.

2. Gain or loss included in other comprehensive income is related to financial assets measured at fair value through other comprehensive income and is recognized in “net change in financial assets measured at fair value through other comprehensive income” in the consolidated statement of comprehensive income.

Financial instruments classified as Level 3 consist mainly of unlisted shares. The fair values relating to the financial instruments classified as Level 3 are measured in accordance with relevant internal rules. In measuring fair values, valuation techniques and inputs that most appropriately reflect the nature, characteristics, and risks of the financial instruments to be measured are adopted. The fair values of unlisted shares are measured in accordance with the Group’s accounting policy by the Group’s departments in charge. The measured fair values are reported to superiors along with reasonable grounds for changes in the fair values and also to the management as necessary.

As for financial instruments classified as Level 3, changes in fair values that occur when unobservable inputs are changed to reasonably possible alternative assumptions are not material.

(4) Equity instruments measured at fair value through other comprehensive income

Equity instruments such as shares are held mainly to maintain and strengthen relations with the issuers over the medium to long term and are designated as equity instruments measured at fair value through other comprehensive income. Major investees of equity instruments and their fair values are as follows:

As of December 31, 2022 (Millions of yen)

Investee	Fair value
Spiber Inc.	1,071
Osaka Vacuum, Ltd.	328
Regional Fish Institute, Ltd.	295
Trans-Tokyo Bay Highway Corporation	80
Central Japan International Airport Co., Ltd.	52
Sakana Farm, inc.	45
Others	352
Total	2,225

As of December 31, 2023 (Millions of yen)

Investee	Fair value
Spiber Inc.	1,119
Oishii Farm Corporation	422
Osaka Vacuum, Ltd.	421
Regional Fish Institute, Ltd.	243
Trans-Tokyo Bay Highway Corporation	80
TOKYO CITY-DEVELOPMENT CO., LTD.	61
Others	433
Total	2,781

Equity instruments are sold as needed based on the review of their fair values (e.g., market prices) and business necessity. Cumulative gains or losses recognized during the period are reclassified from other components of equity to retained earnings through their sale. The sum of fair values of equity instruments as of the sale during the period as well as the sum of cumulative gains or losses from the sale, are as follows:

(Millions of yen)

Fiscal year ended December 31, 2022		Fiscal year ended December 31, 2023	
Fair value	Cumulative gains or losses	Fair value	Cumulative gains or losses
197	0	3	(1)

When the Group disposes of its investments or when the fair values of its investments significantly decline, cumulative gains or losses (net of tax) in the financial assets measured at fair value through other comprehensive income, which were recognized in other components of equity, are reclassified from other components of equity to retained earnings. Such amounts during the fiscal years ended December 31, 2022 and 2023 were ¥(57) million and ¥(32) million, respectively.

Dividend income recognized from equity instruments is as follows:

(Millions of yen)

Fiscal year ended December 31, 2022		Fiscal year ended December 31, 2023	
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
0	5	0	8

(5) Derivatives and hedge accounting

Hedge accounting adopted by the Group in managing risks is described in “(2) Management of financial risks.”

(Cash flow hedges)

Cash flow hedges refer to hedges against future risks of fluctuations in cash flows. Changes in the fair values of derivative transactions, designated as cash flow hedges, are recognized in other comprehensive income. In the event hedged transactions affect profit or loss, the amount recognized in other components of equity is reclassified to profit or loss.

Derivatives designated as cash flow hedges include forward exchange contracts to hedge foreign exchange fluctuation risks of liabilities denominated in foreign currencies.

In applying the hedge accounting, to confirm an economic relationship in which changes in the cash flows of the hedged item attributable to the hedged risk are offset by the hedging instrument, the Group, in principle, confirms an economic relationship between the hedged item and the hedging instrument through a qualitative assessment as to whether the critical terms of the hedged item and the hedging instrument are consistent and a quantitative assessment as to whether changes in the value of the hedging instrument offset changes in the value of the hedged item when such changes arise from identical risks. Since the Company uses highly effective hedges, it is generally assumed that an ineffective portion of hedges will not occur.

An appropriate hedge ratio (basically 1;1) based on the quantities of hedge items and hedging instruments is set at the commencement of a hedging relationship.

The fair values of hedging instruments as of December 31, 2022 and 2023 are as follows: On the consolidated statement of financial position, the fair values of assets relating to hedging instruments are included in other financial assets, and the fair values of liabilities relating to hedging instruments are included in other financial liabilities.

(Millions of yen)

As of December 31, 2022	Notional principal	Average rate	Due within one year	Due after one year	Assets	Liabilities
Forward exchange contracts						
EUR	115	USD1.00 /EUR	115	-	-	8
JPY	226	¥135.70 /USD	226	-	-	11
GBP	11	USD1.15 /GBP	11	-	-	0

(Millions of yen)

As of December 31, 2023	Notional principal	Average rate	Due within one year	Due after one year	Assets	Liabilities
Forward exchange contracts						
EUR	5	USD1.06 /EUR	5	-	-	0
JPY	-	-	-	-	-	-
GBP	-	-	-	-	-	-

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, which is used as a basis for identifying the ineffective hedge portion, are omitted.

Other than the above, the fair values of derivative assets and liabilities not designated as hedging instruments are as follows:

(Millions of yen)

	As of December 31, 2022		As of December 31, 2023	
	Assets	Liabilities	Assets	Liabilities
Forward exchange contracts	294	70	126	73
Non-deliverable forward (NDF) contracts	42	-	-	53
Interest rate swap contracts	28	-	-	13

Cash flow hedge reserve as of December 31, 2022 and 2023 are as follows. There are no cash flow hedge reserve arising from hedging relationships for which hedge accounting had been discontinued.

(Millions of yen)

Type of risks	As of December 31, 2022	As of December 31, 2023
Foreign exchange risk	(21)	(5)

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, which is used as a basis for identifying the ineffective hedge portion, are omitted.

The effects of the hedging instruments designated as cash flow hedges in the consolidated statement of profit or loss and the consolidated statement of comprehensive income in the fiscal years ended December 31, 2022 and 2023 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, 2022		Fiscal year ended December 31, 2023	
		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	(10)	(49)	(0)	15

36. Changes in liabilities related to financing activities

The changes in liabilities related to financing activities are as follows:

(Millions of yen)

	Short-term borrowings	Long-term borrowings	Bonds payable	Lease liabilities	Total
As of January 1, 2022	35,847	34,457	20,000	21,741	112,046
Changes involving cash flows	(12,654)	4,624	10,000	(5,321)	(3,350)
Changes that do not involve cash flows					
New leases	-	-	-	2,984	2,984
Changes due to business combinations	125	-	-	188	313
Exchange differences on translation	4,096	1,580	-	350	6,027
Other changes	64	683	-	562	1,311
As of December 31, 2022	27,480	41,346	30,000	20,506	119,333
Changes involving cash flows	(6,068)	28,501	-	(6,261)	16,171
Changes that do not involve cash flows					
New leases	-	-	-	4,959	4,959
Changes due to business combinations	-	-	-	-	-
Exchange differences on translation	2,209	1,098	-	453	3,761
Other changes	0	192	-	831	1,023
As of December 31, 2023	23,621	71,138	30,000	20,489	145,249

37. Related party transactions

(1) Related party transactions

Fiscal year ended December 31, 2022

Not applicable.

Fiscal year ended December 31, 2023

Not applicable.

(2) Compensation for key management personnel

(Millions of yen)

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Basic compensation and short-term performance-linked compensation	765	743
Share-based compensation	341	400
Others	15	–
Total	1,122	1,143

38. Commitment

Material commitments related to expenditures made on and after the closing dates are as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Acquisition of property, plant and equipment	-	31,650
Total	-	31,650

39. Collaterals

Assets pledged as collateral and corresponding liabilities are as follows:

Assets pledged as collateral

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Buildings and structures	1,650	1,264
Others	1,016	1,156
Total	2,666	2,421

Liabilities corresponding to the above

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Short-term borrowings	-	-
Long-term borrowings	-	-
Total	-	-

40. Contingency

The Group provides guarantees on loans for employee housing and bank loans of The Ebara Hatakeyama Memorial Foundation (a public interest incorporated foundation). The balance of loan guarantees for each fiscal year is as follows:

(Millions of yen)

	As of December 31, 2022	As of December 31, 2023
Loans guaranteed to employees for housing	11	9
Loans guaranteed to The Ebara Hatakeyama Memorial Foundation (a public interest incorporated foundation)	1,645	1,544
Total	1,656	1,553

Loans guaranteed to employees for housing

The Group provides guarantees of bank loans for employee housing. If the debtor is unable to repay the loan that the Group guarantees, the Group is required to bear such amount. Some guaranteed loans are secured by the assets of the debtor.

Loans guaranteed to The Ebara Hatakeyama Memorial Foundation (a public interest incorporated foundation)

The Group guarantees bank loans for The Ebara Hatakeyama Memorial Foundation (a public interest-incorporated foundation). If the debtor is unable to repay the loan the Group guarantees, the Group is required to bear such amount. Some guaranteed loans are secured by the assets of the debtor.

Progress of dispute regarding fire accident at bulky waste treatment facility at the Gifu City Eastern Clean Center

On October 23, 2015, a fire broke out at the bulky waste treatment facility at the Gifu City Eastern Clean Center, which is located in the Akutami section of Gifu City in Gifu Prefecture, when Ebara Environmental Plant Co., Ltd. (hereinafter “EEP”), the Company’s consolidated subsidiary, was making repairs on the facility. EEP is responsible for operating and managing a waste incinerating facility that is located adjacent to the bulky waste treatment facility where the fire occurred.

Regarding this incident, while the Company had been discussing with Gifu City the compensation for related damages, a lawsuit against EEP was filed by Gifu City at the Gifu District Court on January 31, 2019, claiming compensation for damages of ¥4,362 million and late charges for such compensation. Afterward, Gifu City amended its compensation claim amount for damages to ¥4,474 million and late charges for such compensation on July 22, 2019 (received on July 25, 2019). On July 17, 2020, the amount of the compensation claim for damages was amended to ¥4,582 million, and late charges for such compensation (received on July 20, 2020), and on August 10, 2021, the compensation claim for damages was amended to ¥4,692 million and late charges for such compensation (received on August 25, 2021).

On May 31, 2023, the Gifu District Court rendered a judgment ordering EEP to pay ¥748 million and late charges at the rate of 5% per annum from October 23, 2015 until the payment has been made, and judgment rejecting Gifu City’s remaining claims. On June 12, 2023, EEP filed an appeal to the Nagoya High Court against the part of the judgment that allowed the claim of Gifu City and the part that did not allow the claim of EEP.

At this time, it is not possible to make a reasonable estimate of the effect of this incident on the Group’s consolidated financial results.

41. Hyperinflation adjustment

In accordance with the requirements of IAS 29, the Group includes the financial statements of its subsidiary in a hyperinflationary economy in the Group's consolidated financial statements upon restatement in the measuring unit current at the end of the reporting period.

Among them, the Group uses the conversion coefficients calculated from the Turkish consumer price index announced by the Turkish Statistical Institute to restate the financial statements of its Turkish subsidiary.

The Turkish consumer price index and conversion coefficient corresponding to each reporting date are as follows:

Reporting date	Consumer price index (Note)	Conversion coefficient
December 31, 2022	1,128	165
March 31, 2023	1,270	146
June 30, 2023	1,352	138
September 30, 2023	1,691	110
December 31, 2023	1,859	100

Note: The reference period in which the consumer price index was 100 was 2003.

At the subsidiary in a hyperinflationary economy, non-monetary items such as goodwill and intangible assets carried at cost are restated using the conversion coefficient on the acquisition date. Monetary and non-monetary items stated at current cost are thought to be presented in the measuring unit current at the end of the reporting period and thus are not restated.

The financial statements of the subsidiary in a hyperinflationary economy are translated at the spot exchange rate prevailing on the balance sheet date and reflected in the Group's consolidated financial statements.

The impact of restating and translating the non-monetary items at the spot exchange rates is presented in exchange differences in the translation of foreign operations through other comprehensive income. Additionally, the impact of inflation associated with the net monetary position is presented as finance income or finance costs.

The consolidated financial statements of the fiscal year subject to comparison are not restated and presented in accordance with Paragraph 42 (b) of IAS 21, The Effects of Changes in Foreign Exchange Rates.

42. Subsequent events

Stock split and partial amendment to the Articles of Incorporation in line with the stock split

At its meeting held on March 12, 2024, the Company's Board of Directors resolved to conduct a stock split and make a partial amendment to the Company's Articles of Incorporation in line with said stock split.

1. Stock split

(1) Purpose of the stock split

The purpose of the stock split is to reduce the price of share-trading units of the Company's shares, thereby providing a better environment for investment, expanding its investor base, and increasing share liquidity.

(2) Method of the stock split

With June 30, 2024 as the record date, one share of common stock of the Company held by shareholders listed or recorded in the final version of the shareholder register as of said date shall be split into five shares.

(3) Number of shares to be increased as a result of the split

(i) Total number of issued shares before the stock split	92,365,382
(ii) Number of shares to be increased due to the stock split	369,461,528
(iii) Total number of issued shares after the stock split	461,826,910
(iv) Total number of authorized shares after the stock split	1,000,000,000

Note: The number of issued shares and the number of shares to be increased stated above may change by the record date for the stock split due to the exercise of subscription rights and other factors.

(4) Impact on per-share data

The following is the Company's per-share data prepared based on the premise that the stock split was implemented at the beginning of the fiscal year ended December 31, 2022.

	Fiscal year ended December 31, 2022	Fiscal year ended December 31, 2023
Equity attributable to owners of parent per share	782.01	887.92
Basic earnings per share	109.72	130.73
Diluted earnings per share	109.47	130.51

(5) Schedule for the stock split

Date of public notice of the record date: Friday, June 14, 2024 (plan)

Record date: Sunday, June 30, 2024

Effective date: Monday, July 1, 2024

(6) Other

The stock split makes no change to the amount of share capital.

2. Partial amendment to the Articles of Incorporation

(1) Reason for the amendment

In accordance with the provisions of Article 184, Paragraph 2 of the Companies Act, the Company will make a partial amendment to its Articles of Incorporation in line with the stock split, effective July 1, 2024.

(2) Details of the amendment

The Articles of Incorporation will be amended as follows (amendments are underlined):

Current text of the Articles of Incorporation	Proposed amendment
ARTICLE 6 (Aggregate Number of Shares Authorized to be Issued) The aggregate number of shares authorized to be issued by the Company shall be 200,000,000 (two hundred million).	ARTICLE 6 (Aggregate Number of Shares Authorized to be Issued) The aggregate number of shares authorized to be issued by the Company shall be 1,000,000,000 (one billion).

(3) Schedule for the amendment

Date of resolution by the Board of Directors: Tuesday, March 12, 2024

Effective date: Monday, July 1, 2024

(2) Other information

(i) Quarterly results for the fiscal year ended December 31, 2023

(Cumulative period)		First quarter	Second quarter	Third quarter	Full year
Revenue	(Millions of yen)	184,071	363,833	551,215	759,328
Profit before tax	(Millions of yen)	15,183	34,085	56,856	84,733
Profit attributable to owners of parent	(Millions of yen)	8,098	20,583	34,905	60,283
Basic earnings per share	(Yen)	87.95	223.37	378.59	653.64

(Accounting period)		First quarter	Second quarter	Third quarter	Fourth quarter
Basic earnings per share	(Yen)	87.95	135.40	155.14	274.89

(ii) Information after the closing date

Not applicable.

(iii) Litigation

For more details, please refer to “40. Contingency.”

VI. Outline of Stock Administration of the Reporting Company

Fiscal year	From January 1 to December 31
Ordinary General Meeting of Shareholders	March
Record date	December 31
Record date of dividends of surplus	June 30 December 31
Number of shares constituting one unit	100 shares
Buyback or additional sale of shares of less than one unit	
Transfer agent	(Special account) 1-4-1, Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited Stock Transfer Agency Department
Stock registry administrator	(Special account) 1-4-1, Marunouchi, Chiyoda-ku, Tokyo Sumitomo Mitsui Trust Bank, Limited
Forwarding office	–
Share buyback or additional sale fees	Separately specified amount equivalent to share trading brokerage fees
Method of public notice	Electronic public notice is used; provided, however, that when electronic public notice cannot be used due to an accident or any other unavoidable reason, the public notices shall be given in The Nikkei (Nihon Keizai Shimbun) newspaper. https://www.ebara.co.jp/en/
Shareholder benefits	None

Note: The Company's Articles of Incorporation stipulate that shareholders of the Company with shares of less than one unit may not exercise rights other than the right specified in each item of Article 189, Paragraph 2 of the Companies Act; the right to demand buyback of shares with put option held by such shareholders; the right to receive the allotment of shares for subscription and the allotment of subscription rights to shares in accordance with the number of shares they hold; and the right to demand additional sale of shares of less than one unit to make full shares.

VII. Reference Information of the Reporting Company

1. Information about Parent of Reporting Company

The Company has no parent company, etc.

2. Other Reference Information

The Company submitted the following documents during the period from the beginning of the current fiscal year to the date of submission of the Annual Securities Report.

(1) Annual securities report and documents attached thereto, and confirmation letter thereof	Fiscal year (the 158th)	(from January 1, 2022 to December 31, 2022)	March 30, 2023 Submitted to the Director of the Kanto Local Finance Bureau
(2) Internal control report and documents attached thereto			March 30, 2023 Submitted to the Director of the Kanto Local Finance Bureau
(3) Quarterly securities reports and attached documents			
	(1st Quarter of the 159th)	(from January 1, 2023 to March 31, 2023)	May 15, 2023 Submitted to the Director of the Kanto Local Finance Bureau
	(2nd Quarter of the 159th)	(from April 1, 2023 to June 30, 2023)	August 14, 2023 Submitted to the Director of the Kanto Local Finance Bureau
	(3rd Quarter of the 159th)	(from July 1, 2023 to September 30, 2023)	November 14, 2023 Submitted to the Director of the Kanto Local Finance Bureau
(4) Report on the correction of attached documents			
	(1st Quarter of the 159th)	(from January 1, 2023 to March 31, 2023)	August 14, 2023 Submitted to the Director of the Kanto Local Finance Bureau
(5) Extraordinary report			
Extraordinary report pursuant to Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 9-2 (Results of exercise of voting rights at a general meeting of shareholders) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs			March 30, 2023 Submitted to the Director of the Kanto Local Finance Bureau
Extraordinary report pursuant to Article 24-5, Paragraph 4 of the Financial Instruments and Exchange Act and Article 19, Paragraph 2, Item 3 (Change to specified subsidiaries) of the Cabinet Office Ordinance on Disclosure of Corporate Affairs			October 12, 2023 Submitted to the Director of the Kanto Local Finance Bureau

(6) Securities registration statement and documents attached thereto	
(Issuance of shares of common stock as restricted stock compensation)	April 11, 2023 Submitted to the Director of the Kanto Local Finance Bureau
(Issuance of shares of common stock as performance-linked stock compensation)	April 11, 2023 Submitted to the Director of the Kanto Local Finance Bureau
(7) Amended shelf registration statement	
	March 7, 2023 Submitted to the Director of the Kanto Local Finance Bureau
	March 30, 2023 Submitted to the Director of the Kanto Local Finance Bureau
	October 12, 2023 Submitted to the Director of the Kanto Local Finance Bureau

Part 2. Information on Reporting Company's Guarantor

Not applicable.

(TRANSLATION)

INDEPENDENT AUDITOR'S REPORT

March 28, 2024

To the Board of Directors of
EBARA CORPORATION:

Deloitte Touche Tohmatsu LLC
Tokyo office

Designated Engagement Partner,
Certified Public Accountant:

Yoshiaki Kitamura

Designated Engagement Partner,
Certified Public Accountant:

Takuya Sumita

Designated Engagement Partner,
Certified Public Accountant:

Akiko Fujiharu

<Audit of Consolidated Financial Statements>

Opinion

Pursuant to the first paragraph of Article 193-2 of the Financial Instruments and Exchange Act, we have audited the consolidated financial statements of EBARA CORPORATION and its consolidated subsidiaries (the "Group") included in the Financial Section, namely, the consolidated statement of financial position as of December 31, 2023, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from January 1, 2023 to December 31, 2023, 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 of December 31, 2023, 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 provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. 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 our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Management's estimates of the total costs used for revenue recognition for long-term and large-scale construction contracts

【Key Audit Matter Description】

The Group operates the following businesses based on target market-based segments.

Segment	Main Businesses
Building Service & Industrial	Manufacturing, sales and maintenance of standard pumps, freezer chillers and blowers used in building and industry equipment
Energy	Manufacturing, sales and maintenance of boiler feed pumps, compressors and turbines used in oil and gas, power facility and new energy
Infrastructure	Manufacturing, sales, operation and maintenance of agricultural pumps, drainage pumps, water and sewerage pumps and tunnel fans used in water infrastructure
Environmental Solutions	Engineering, construction, operation and maintenance of municipal waste processing plants and industrial waste incineration plants used in solid waste treatment
Precision Machinery	Manufacturing, sales and maintenance of dry vacuum pumps, CMP equipment, plating equipment and exhaust-gas treatment equipment used in semiconductor manufacturing

Among the above segments, the Group enters into construction contracts with customers in "Building Service & Industrial," "Energy," "Infrastructure," and "Environmental Solutions."

As described in Note 3, "Material Accounting Policies, (13) Revenue," and Note 4, "Significant Accounting Estimates and Related Judgments," for the aforementioned construction contracts, the Group recognizes revenue as the related performance obligations are satisfied over a period of time to reflect the transfer of control of the products or services to the customer. The Group estimates the percentage of completion using the following formula (input method) when the progress of satisfying the corresponding performance obligations can be reliably measured.

$$\text{Percentage of completion} = \frac{\text{Actual costs incurred}}{\text{Estimated total costs}}$$

Work contents and specifications of the Groups' construction contracts vary from project. Therefore, estimating total costs requires certain assumptions and judgments made by project control managers with specialized knowledge and experience. There are some long-term and large- scale construction contracts especially for "Energy," "Infrastructure," and "Environmental Solutions." For these construction contracts, contract modification, such as changes in specifications, constructions delays, or fluctuations in the unit price of construction materials and labor cost, may subsequently cause changes in the estimated total costs.

Due to such nature of construction contracts of the Group, the estimates of total costs for long-term and large-scale construction contracts, which serve as a basis for revenue recognition, are subject to a high degree of uncertainty and management judgments. Therefore, we identified management's estimates of the total costs used for revenue recognition for long-term and large-scale construction contracts as a key audit matter.

【How the Key Audit Matter Was Addressed in the Audit】

Our audit procedures related to the evaluation for the estimates of the total costs as a basis for revenue recognition in long-term and large-scale construction contracts included the following, among others:

(1) Evaluation of internal controls

We tested the design and operating effectiveness over the following internal controls of the Group in relation to estimates of the total costs:

・Controls to ensure the reliability of a working budget (a budget prepared and approved for project cost management), used in estimating the total costs through the budgeting process performed by persons in charge of the project with specialized knowledge and approved by project control managers

・Controls to ensure and approve the revisions of the estimated total costs were made in a timely manner based on changes in contract terms, project progress, and the actual cost incurred

・Controls to conduct timely and appropriate monitoring of the profit and loss management and progress of the projects by the project control managers who were responsible for the reliability of costs

(2) Evaluation of the reasonableness of total cost estimates

We performed the following procedures over a sample of projects selected by considering the quantitative significance of contractual amount and revenue, the progress of constructions, construction period, and others.

・Inspected the contracts, working budgets, and construction management materials

・Inquired of the project control managers regarding contract modification, status of constructions and actual costs incurred for projects, and whether the estimated total costs are to be revised

・Evaluated the reasonableness of the significant assumptions such as the unit price of construction materials and labor cost and construction period used in the estimate of total costs

・Matched underlying data of the estimate of total costs with the supporting documents

・Observed the construction sites or manufacturing sites, and inquired of site supervisors

・Compared the original estimates or revised estimates of total costs with the actual total costs

Valuation of goodwill related to Vansan Makina Sanayi ve Ticaret A.S. and its subsidiaries

【Key Audit Matter Description】

In April 2021, EBARA CORPORATION acquired Cigli Su Teknolojileri A.S and its subsidiaries (Cigli Su Teknolojileri A.S. was dissolved through an absorption-type merger with its subsidiary, Vansan Makina Sanayi ve Ticaret A.S., in December 2022. "Vansan and its subsidiaries"), a pump manufacturer in Turkey, for "Building Services & Industrial" segment to strengthen the access to the markets in Europe, Central Asia, the Middle East and Africa and enhance the supply chain in the global market to expand the Standard Pumps Business.

As described in Note 13, "Impairment of non-financial assets, (3) Impairment test on goodwill," the Group recognized 5,835 million yen of goodwill related to Vansan and its subsidiaries in its consolidated statement of financial position, and performs an impairment test at the same time every year and whenever there are any indications of impairment. As a result, the Group has written down the book value to the recoverable amount and recognized 1,437 million yen of an impairment loss on goodwill in its consolidated statement of income in the current year due to a revision of the business plan reflecting actual results and economic conditions surrounding Turkey.

In performing the impairment test, the recoverable amount of the cash-generating unit or a group of the cash-generating units, including goodwill, is measured at the value in use. The value in use is calculated by discounting the future cash flows based on the business plan for the next five years approved by management and the perpetual growth rate estimated from a range of expected long-term market growth rates and among others for the business plan period onwards.

The significant elements in estimating the value in use are the valuation model for calculating the value in use, the estimated future cash flows for the next five years, the perpetual growth rate and the discount rate.

Among these, the business plan as a basis for the estimated future cash flows and the discount rate involves a high degree of uncertainty due to the following reasons:

Item	Reason for high uncertainty
Business plan	・High uncertainty of feasibility because of the unstable economic environment in Turkey ・Difficulty in estimating the impact from inflation ・Difficulty in estimating the synergy around revenue and profit
Discount rate	・Impact from inflation rate ・Impact of changes in country risk due to the changes in the economic environment ・High degree of sensitivity due to the use of a high discount rate

Considering the above, the aforementioned significant assumptions in estimating the value in use are highly uncertain, and require management's judgement. Therefore, we identified the valuation of goodwill related to Vansan and its subsidiaries as a key audit matter.

【How the Key Audit Matter Was Addressed in the Audit】

Our audit procedures for the estimated future cash flows for evaluation of goodwill related to Vansan and its subsidiaries and the discount rate included the following, among others:

(1) Evaluation of internal controls

We tested the design and operating effectiveness over the following internal controls of the Group in relation to the goodwill impairment test for Vansan and its subsidiaries:

・Controls by Chief Financial Officer to ensure and approve that there was no inconsistency between the assumptions used in the calculation of enterprise value and the approved business plan and the appropriate conclusion was reached in the impairment test.

(2) Evaluation of the reasonableness of the estimated value in use

We performed following audit procedures for the business plan underlying the future cash flows and the discount rate.

Item	Procedure
Business plan	・Tested consistency with the projected future cash flows for the next five years approved by management ・Inquired of management and other persons about the business plan underlying the future cash flows, and compared the business plan with available external information such as market forecast, or historical performance ・Compared the future cash flow plans used in valuation of goodwill in past years with actual results to assess the effectiveness of management's estimation process in developing the future cash flow plans. ・Compared the inflation rate incorporated into the future cash flows with available external information
Discount rate	・Tested the consistency between the input used in estimating the discount rate such as country risk and external information with the assistance of our valuation specialist ・Compared the inflation rate incorporated into the discount rate with available external information

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on March 30, 2023.

Other Information

Management is responsible for the other information. The Audit Committee is responsible for overseeing the Officers and Directors' execution of duties relating to the design and operating effectiveness of the controls over the other information. The other information comprises the information included in the Annual Securities Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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, disclosing, as applicable, matters related to going concern in accordance with IFRSs.

The Audit Committee is responsible for overseeing the Officers and Directors' execution of duties relating to the design and operating effectiveness of the controls over 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. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of 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 whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as 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.

- 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 relevant ethical requirements regarding independence, and communicate with it all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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.

<Fee-Related Information>

Fees for audit and other services for the year ended December 31, 2023, which were charged by us and our network firms to EBARA CORPORATION and its subsidiaries are disclosed in “IV. Information about Reporting Company, 4. Corporate Governance, (3) Auditing Status” of the Annual Securities Report.

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.

Notes to the Readers of Independent Auditor's Report

This is an English translation of the independent auditor's report as required by the Financial Instruments and Exchange Act of Japan for the conveniences of the reader. Since the Internal Control Report is not included in the Annual Securities Report, the statements regarding the internal control audit included in the original independent auditor’s report are not included in the translation.