

# Governance Structure and Management Systems

EBARA's corporate philosophy is "Extensive contribution to society by providing superior technologies and services related to water, air, and the environment." Under this corporate philosophy, EBARA is set to enhance its corporate value and returning profit to shareholders as its highest-priority management issues. To address these issues, it is indispensable to increase the transparency and objectivity of management activities. Accordingly, EBARA is working to strengthen its corporate governance.

Additionally, EBARA has established in-house rules that include the "EBARA Group Code of Conduct" to provide basic guidelines for the conduct of corporate activities.

## Corporate Governance

Based on Japan's Companies Act, EBARA has established a governance structure comprising the Board of Directors, the Audit & Supervisory Board, and the Independent Auditor.

### Board of Directors

Under the rules for the activities of the Board of Directors established by the Company, members of the Board of Directors are required to execute their duties in compliance with laws and regulations and the Company's Articles of Incorporation. Also under these rules, the Board of Directors holds regular monthly meetings and special sessions when necessary. The Chairman of the Board of Directors is appointed from among Board members who do not have the status of Representative Director with the objective of separating management oversight functions from final decision-making authority. In addition, the Board of Directors is composed of 12 members, and 4 of these are independent Outside Directors who have no special interest in EBARA. At present, all Board members are Japanese men, but from the standpoint of diversity, the Company is considering the appointment of women and persons of foreign nationality to its Board in several years.

### Audit & Supervisory Board

The Audit & Supervisory Board comprises five members, three of whom are Outside Audit & Supervisory Board Members who have no special interest in EBARA. Based on auditing plans and auditing principles drawn up by the Audit & Supervisory Board, it audits the conduct of management duties by the Directors. At the same time, it exchanges information and opinions with the Representative Director and with the Independent Auditor to ensure the effectiveness of auditing activities.

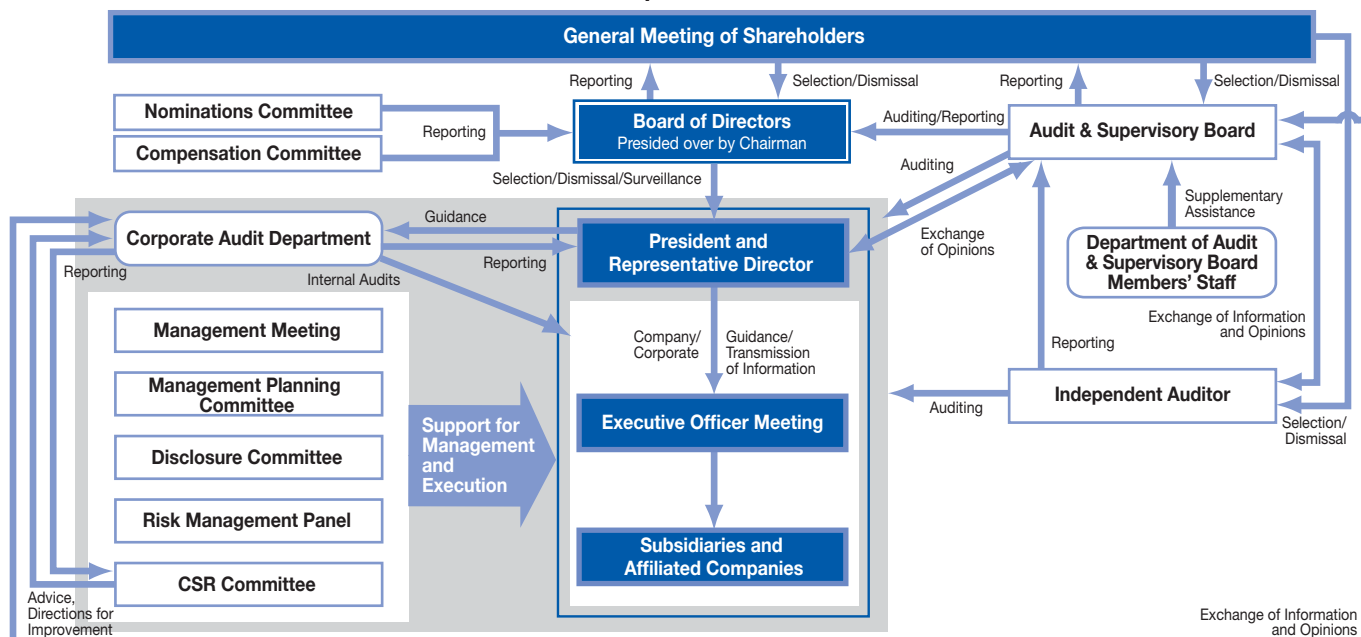
### Independent Auditor

The Company's Independent Auditor, Ernst & Young ShinNihon LLC, audits the Company's accounts and other matters as required under the Companies Act and Japan's Financial Instruments and Exchange Act.

### Discretionary Governance Structure

In addition to the previously mentioned organizational units required by law, the Company has established the following units on its own initiative.

Outline of EBARA's Corporate Governance Framework



## 1. Executive Officer System

The Company has separated the decision-making and management oversight functions of the Board of Directors on the one hand and functions of the Executive Officers, who are in charge of the conduct of operations of business divisions, on the other. Moreover, those executives of the principal EBARA Group companies, who have been certified to meet the personnel conditions for being Executive Officers of the parent company, are appointed to the status of EBARA Group Executive Officers. In addition to performing their duties in their respective Group companies, they also perform roles in the management of the Group from an overall optimal perspective. At present, there are 39 Executive Officers, including the Group Executive Officers, and all of these are Japanese men, but from the standpoint of diversity, the Company is considering the appointment of women and persons of foreign nationality to Executive Officer positions in several years.

## 2. Management Meeting

In addition to the discussion of management policy and corporate strategy in the meetings of the Board of Directors, the Management Meeting is convened monthly to provide management members with the chance to broadly discuss various issues related to policy and strategy.

## 3. Nominations Committee and Compensation Committee

To ensure the transparency and objectivity in the selection of Directors and Executive Officers as well as in the determination of their compensation, the Company has established the Nominations Committee and the Compensation Committee. Both of these committees have a majority of Outside Directors as members, and their decisions are made on a majority basis.

## 4. Corporate Social Responsibility (CSR) Committee

The CSR Committee is composed of all members of the Board of Directors, including Outside Directors and all standing Audit & Supervisory Board Members (as observers). The committee hears periodic reports from the Corporate Audit Department and the Internal Control Department and provides a forum for the exchange of information and opinions among the Outside Directors, Audit & Supervisory Board Members, the Corporate Audit Department, and others.

## Executive Compensation

Regarding the compensation of Directors and Audit & Supervisory Board Members, basic upper limits on the total compensation of Directors and the total compensation of Audit & Supervisory Board Members are approved by the General Meeting of Shareholders. Policies regarding compensation of Directors are discussed in the Compensation Committee and put to a vote in the Board of Directors meeting. For the compensation of Audit & Supervisory Board Members, discussions are held and final recommendations are approved in the Audit & Supervisory Board. Note that all Directors, other than Outside Directors, are encouraged to abide by and monitor compliance with the Company's corporate philosophy. Also, to provide a strong motivation to attain medium- to long-term management goals, the Company has established a compensation system that is closely linked to Company performance. For Audit & Supervisory Board Members, in setting compensation, consideration is given to the workload assigned to full-time versus part-time Audit & Supervisory Board Members, and the amount of compensation for individual Auditors is determined in discussions among Audit & Supervisory Board Members.

### Total Amounts of Compensation for Directors and Audit & Supervisory Board Members (Year ended March 31, 2013)

Executive position (Number of persons)	Millions of yen			
	Total compensation	Basic compensation	Bonus	Stock options
Directors (17)	392	237	94	60
Outside Directors (6)	48	48	None	None
Audit & Supervisory Board Members (5)	81	81	None	None
Outside Audit & Supervisory Board Members (3)	32	32	None	None

## Directors of the Board, Audit & Supervisory Board Members, and Executive Officers

(As of June 27, 2013)



### Directors of the Board

#### Natsunosuke Yago

Director of the Board  
Chairman

#### Toichi Maeda\*

President and Representative Director

#### Tetsuji Fujimoto\*

Director of the Board

#### Manabu Tsujimura\*

Director of the Board

#### Atsuo Ohi\*

Director of the Board

#### Akira Ogata\*

Director of the Board

#### Masaru Shibuya\*

Director of the Board

#### Nobuharu Noji\*

Director of the Board

#### Akio Mikuni

Outside Director

#### Sakon Uda

Outside Director

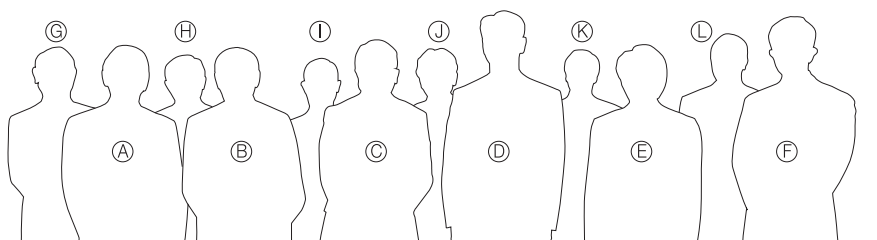
#### Masao Namiki

Outside Director

#### Shiro Kuniya

Outside Director

Directors of the Board marked with \* hold the post of Executive Officer concurrently.



- (A) Masao Namiki (B) Akio Mikuni (C) Natsunosuke Yago (D) Toichi Maeda (E) Sakon Uda (F) Shiro Kuniya  
(G) Masaru Shibuya (H) Manabu Tsujimura (I) Tetsuji Fujimoto (J) Atsuo Ohi (K) Akira Ogata (L) Nobuharu Noji

## Audit & Supervisory Board Members

**Toshihiro Yamashita**  
**Akira Hashimoto**

**Yoshihiro Machida\***  
**Fumio Takahashi\***  
**Tadashi Urabe\***

Individuals marked with \* are Outside Audit & Supervisory Board Members.

## Executive Officers

### Senior Managing Executive Officers

#### **Tetsuji Fujimoto**

Responsible for Group Management, Finance & Accounting, Internal Control,  
President, Environmental Engineering Company

#### **Manabu Tsujimura**

President, Precision Machinery Company,  
Responsible for Technologies, R&D, Intellectual Property

### Managing Executive Officers

#### **Atsuo Ohi**

President, Fluid Machinery & Systems Company,  
Head of Business Unit, Global Pump Business Unit

#### **Akira Ogata**

Head of Business Unit, Operations of Technology and Production, Fluid Machinery & Systems Company,  
Responsible for Production Process Innovation, Information & Communication System, Division Executive, Production Process Innovation Division

#### **Masaru Shibuya**

Responsible for Human Resources, Legal, Public Relations & General Affairs, Division Executive,  
Human Resources, Legal & Public Relations Division

#### **Nobuharu Noji**

Division Executive, Standard Pump Business Division,  
Operations of Technology and Production,  
Fluid Machinery & Systems Company,  
Executive General Manager, Fujisawa Plant

#### **Akira Itoh**

Division Executive, Enterprise Risk Control Division

#### **Shotaro Kuryu**

Head of Business Unit, Domestic Sales, Marketing & Service Business Unit, Fluid Machinery & Systems Company

#### **Akio Teragaki**

Division Executive, Custom Pumps Division, Operations of Technology and Production, Fluid Machinery & Systems Company, Executive General Manager,  
Futtsu Plant, Executive General Manager, Futtsu District

### Executive Officers

#### **Koji Ota**

Division Executive, Administration Division,  
Precision Machinery Company

#### **Kiyoshi Hirono**

Executive General Manager, Osaka Branch,  
Domestic Sales, Marketing & Service Business Unit,  
Fluid Machinery & Systems Company

#### **Takao Inoue**

Division Executive, Marketing & Sales Division,  
Global Pump Business Unit,  
Fluid Machinery & Systems Company

#### **Seiji Katsuoka**

Division Executive, CMP Division,  
Precision Machinery Company

#### **Norio Kimura**

Division Executive, Components Division,  
Precision Machinery Company

#### **Susumu Shiga**

General Manager, Ebara Boshan Pumps Co., Ltd.,  
Fluid Machinery & Systems Company

#### **Masao Asami**

Division Executive, Sales and Marketing Division,  
Precision Machinery Company

#### **Minoru Takano**

Division Executive, General Affairs Division,  
Executive General Manager, Haneda Office

#### **Kazuhiro Ogawara**

Head of Unit, Planning & Administration Unit,  
Fluid Machinery & Systems Company

#### **Kengo Choki**

Division Executive, Finance & Accounting Division

#### **Akihiro Kida**

Deputy Head of Business Unit, Domestic Sales,  
Marketing & Service Business Unit,  
Fluid Machinery & Systems Company

#### **Yoshiaki Okiyama**

Division Executive, China & East Asia Division, Global Pump Business Unit, Division Executive, Business Planning & Administration Division, Executive General Manager, China & East Asia Regional Office,  
Fluid Machinery & Systems Company

#### **Mitsuhiko Shirakashi**

Division Executive, Production & Assurance Division,  
Precision Machinery Company, Executive General Manager, Fujisawa District

#### **Hisao Matsumoto**

Deputy Division Executive, Standard Pump Business Division, Operations of Technology and Production,  
Fluid Machinery & Systems Company

#### **Takafumi Maehara**

Division Executive, Middle East Division, Executive General Manager, Middle East Regional Office,  
Fluid Machinery & Systems Company

#### **Kazuo Toriumi**

Deputy Head of Business Unit, Domestic Sales,  
Marketing & Service Business Unit, Division Executive,  
Infrastructure Project Engineering Division, Domestic Sales, Fluid Machinery & Systems Company

#### **Hidegori Iwanaga**

Division Executive, Southeast Asia Division, Global Pump Business Unit, Executive General Manager,  
Southeast Asia Regional Office, Fluid Machinery & Systems Company

#### **Hideki Yamada**

Division Executive, Procurement Division,  
Operations of Technology and Production,  
Fluid Machinery & Systems Company

## Internal Controls

EBARA's Board of Directors has approved its Basic Policy on Internal Control. Based on this policy, EBARA has been operating internal control systems to ensure that directors and employees conduct their assignments in compliance with laws and rules, to manage risks, to conduct proper operations in Group companies, and to prepare reliable financial reports.

The EBARA Group Code of Conduct has been established, and training programs are being implemented to raise awareness of compliance. In addition, the status of implementation of compliance is monitored, and surveillance is conducted for the design and operation of internal controls. Also, the CSR Committee has been appointed as the organizational unit to issue directives for making improvements when necessary. Moreover, both internal and external advisory units have been established as a "whistle blower system," with consulting services regarding violations of laws and ethics.

The EBARA Group's risk management systems oversee risk-related activities, and a Risk Management Panel has been formed as the organizational unit in charge of deliberating and giving guidance and support for making improvements in risk management. The EBARA Group has divided its risk management activities broadly into two types. The first type comprises risks that might impair the continuing development of the operations of EBARA Corporation and its Group companies. The other type is business continuity strategy for risks that might emerge during times of crisis. Through these two types of risk management activities, the major risks have been identified, and countermeasures to deal with them have been prepared. As a part of business continuity strategy in crisis situations, EBARA has developed business continuity management systems for dealing with such risks during times of major disasters or epidemics.

Regarding internal audit systems, the Corporate Audit Department, which reports directly to the president of EBARA, has been formed. It has the responsibility for identifying major issues and themes related to the status of Group company compliance and risk management systems. This department then implements internal audits from a perspective that is independent of the business execution departments where these issues and themes may arise.

To ensure the reliability of financial reporting, the Committee for Proper Accounting has been formed consisting of representatives of the internal control departments as well as the accounting departments of Group companies. This committee works to promote the efficacy of the Group's internal controls under Japan's Financial Instruments and Exchange Act, and strives to ensure the reliability of financial reporting, through the implementation of assessments of internal controls by assessment teams, which are formed by the Corporate Audit Department.

## Compliance System

The Company is fully aware that unethical behavior due to the lack of compliance may damage its management foundations. Accordingly, its approach to securing thorough compliance includes five approaches. These are the preparation of the Board of Directors' Compliance Action Plan, the formation of a CSR Committee, the establishment of a Group Compliance Network, the creation of a Compliance Liaison System, and the offering of consultation functions, or a "whistle-blower" system.

The Board of Directors' Compliance Action Plan for taking specific action to promote compliance is prepared each year by the Board of Directors. The content of this plan is announced to employees to clarify what Directors should be doing to secure compliance. The results of the activities of Directors are assessed at the end of the year, and used as a basis for a "plan-do-check-action" (PDCA) cycle aimed at improving the effectiveness of these activities year by year.

The CSR Committee is chaired by the President of EBARA Corporation and comprises all Directors and Full-Time Corporate Auditors. In addition, the outside legal counsel responsible for the outside compliance-related consultation function participates to offer advice. In the CSR Committee meetings, deliberations are conducted concerning how the Company should perform its social responsibilities on a day-to-day basis.

In addition, this committee invites the presidents and representatives of Group companies to confirm the status of compliance in each of these companies, and, by conducting periodic checks on the status of compliance throughout the Group, verifies the proper conduct of business activities and promotes improvements in Group activities.

The Group Compliance Network is composed of the officers in charge of corporate ethics in each of the Group companies, and, to ensure that the various measures decided by the CSR Committee are properly implemented in the Group, this network serves as a forum for introducing the related training activities and initiatives being taken by Group companies.

The Compliance Liaison System provides for the stationing of liaison personnel at the workplace level. Its objectives include promoting the development of a compliance culture in the workplace as well as discovering and correcting compliance risks that may exist. Training courses for liaison personnel are conducted twice a year to sharpen their awareness of the objectives of liaison activities and enhance their skills.

As part of compliance-related consultation functions, the Company offers access to advisory services provided by outside legal counsel as well as the Harassment Consultation Service, offered by the Human Rights and Compliance Department. Together, these consultation functions deal with between 20 and 30 compliance-related cases each year. In addition, the Human Rights and Compliance Department conducts a questionnaire survey each year to gain input for assessing and implementing improvements in the Company's compliance system.