FINANCIAL REPORT

2020

EBARA CORPORATION
For the Fiscal Year Ended December 31, 2020

Contents

Financial Review

Overview of Management Performance

During the fiscal year ended December 31, 2020, the outlook for the global economy remained uncertain due to an economic slowdown caused by the global outbreak of COVID-19. In the Japanese economy, capital investment remained weak and severe. On the other hand, public investment remained firm and there were investments in recovery and reconstruction measures in response to large-scale natural disasters.

The oil and gas markets, which are the main markets of Ebara Corporation (hereinafter referred to as "the Company") and its subsidiaries (hereinafter collectively referred to as "the Group"), continued to be affected by COVID-19 and a decline in crude oil prices, and there were signs of delays or postponements in projects. In the construction equipment market, construction works continued to be suspended or delayed in some countries and regions. On the other hand, in the semiconductor market, despite impacts of the US-China trade friction, demand for semiconductors was firm and capital investment continued to recover.

Under these circumstances, orders received for the fiscal year ended December 31, 2020 greatly exceeded the previous year in the Precision Machinery ("PM") Company due to increased demand for semiconductors. The Fluid Machinery & Systems ("FMS") Company was affected by the impact of COVID-19. There was improvement in some regions after spring, however, due to continued postponements of new investments and mobility restrictions in foreign countries, orders received dropped compared to the previous year. In the Environmental Plants ("EP") Company, there was timing difference of investment. In addition, orders received decreased as a whole compared to the previous year when there were multiple orders received for large scale investments in the public sector.

Sales remain at the same level as the previous year as a whole resulting from growth in the PM Company and decrease of the FMS Company's sales in the construction equipment market.

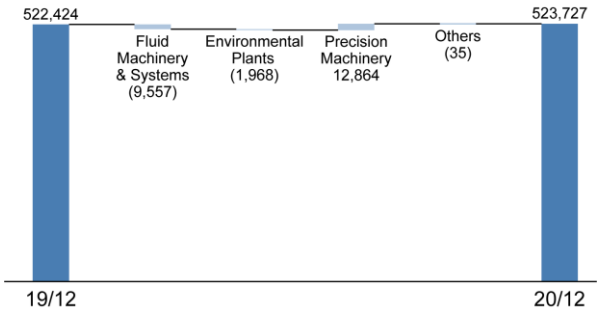
Operating income increased compared to the previous year due to improved profitability in products and fixed costs control in the FMS Company in addition to sales increases in the PM Company.

In the fiscal year ended December 31, 2020, consolidated orders received amounted to ¥511,921 million (a decrease of 7.3% year-on-year), net sales amounted to ¥523,727 million (an increase of 0.2% year-on-year), operating income amounted to ¥37,879 million (an increase of 7.3% year-on-year), and profit attributable to owners of parent amounted to ¥24,473 million (an increase of 4.8% year-on-year).

The Company has adopted "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018) from the beginning of the fiscal year ended December 31, 2020. For further details, please refer to "3. Accounting Changes, Changes in Accounting Policies, Application of Accounting Standard for Revenue Recognition."

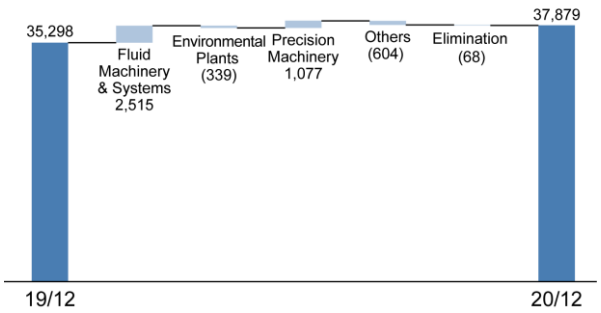
Net Sales

Millions of yen



Operating Income

Millions of yen



Financial Position

Assets

Total assets as of December 31, 2020 were ¥621,578 million, ¥26,338 million higher than as of December 31, 2019. Principal changes in asset items included a decrease of ¥22,433 million in work in process, an increase of ¥27,981 million in cash and deposits and an increase of ¥11,538 million in construction in progress. The increases in construction in progress were mainly due to investments for growth such as the addition of domestic factories in the PM Company.

Assets by business segment are ¥315,858 million in the FMS Company (an increase of ¥2,826 million year-on-year), ¥53,319 million in the EP Company (an increase of ¥901 million year-on-year), ¥150,574 million in the PM Company (an increase of ¥8,665 million year-on-year) and ¥24,136 million in Others (a decrease of ¥3,120 million year-on-year).

Liabilities

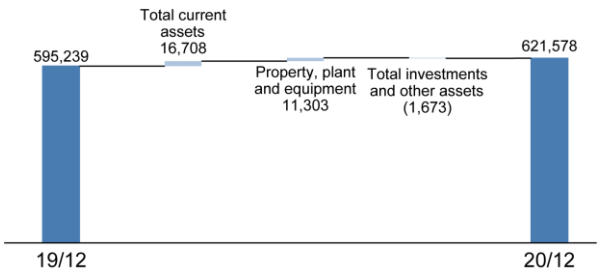
Total liabilities as of December 31, 2020 were ¥317,108 million, ¥13,696 million higher than as of December 31, 2019. Principal changes in liability items included a decrease of ¥22,909 million in short-term loans payable, an increase of ¥22,895 million in advances received and an increase of ¥10,000 million in bonds payable.

Net Assets

Net assets as of December 31, 2020 amounted to ¥304,470 million, ¥12,642 million higher than as of December 31, 2019. Principal changes in net asset items included an increase of ¥14,810 million in retained earnings and a decrease of ¥3,389 million in translation adjustments. Changes in retained earnings consist of the following: profit attributable to owners of parent of ¥24,473 million, an increase of ¥525 million due to change of scope of consolidation, a decrease of ¥4,473 million in the beginning balance due to adopting Accounting Standard for Revenue Recognition, and cash dividends paid of ¥5,713 million. Shareholders' equity (Net assets excluding subscription rights to shares and non-controlling interests) amounted to ¥296,232 million, and equity ratio was 47.7%.

Total Assets

Millions of yen



Cash Flows

Net cash provided by operating activities amounted to a net inflow of ¥64,234 million for the fiscal year ended December 31, 2020, an increase of ¥37,513 million in net inflow compared to the previous year. This is primarily due to robust performance in operating income.

Net cash used in investing activities amounted to a net outflow of ¥29,071 million for the fiscal year ended December 31, 2020, an increase of ¥4,993 million in net outflow compared to the previous year. This is primarily due to purchase of fixed assets of ¥31,172 million.

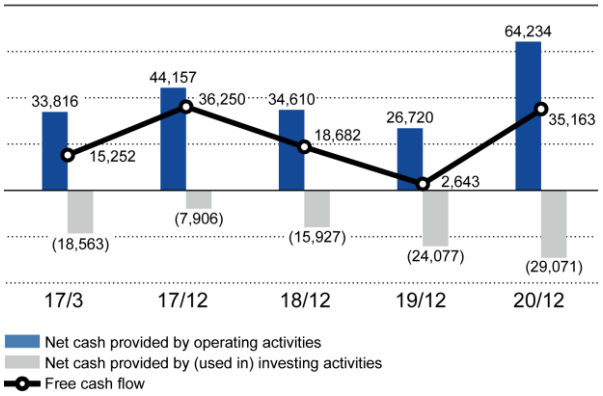
Free cash flow, the sum of cash flows from operating and investing activities, amounted to a net inflow of ¥35,163 million for the fiscal year ended December 31, 2020, an increase of ¥32,520 million in net inflow compared to the previous year.

Net cash used in financing activities amounted to a net outflow of ¥9,628 million for the fiscal year ended December 31, 2020, a decrease of ¥10,560 million in net outflow compared to the previous year. This is primarily due to net decrease in short-term and long-term loans payable of ¥11,856 million and cash dividends paid of ¥5,713 million, despite proceeds from issuance of bonds payable of ¥10,000 million.

As a result, cash and cash equivalents as of December 31, 2020 amounted to ¥120,544 million, ¥27,192 million higher than as of December 31, 2019.

Cash Flows

Millions of yen



Capital Expenditures

Regarding investments, during the fiscal year, the Group implemented capital expenditures amounting to ¥32,295 million. These were primarily for the expansion of production capability and the installation of equipment to enhance productivity. In addition to property, plant and equipment, investment amounts include investments in intangible fixed assets.

Principal capital expenditures by business segment were as follows. Please note that these investment figures include intersegment transactions.

Fluid Machinery & Systems Business

Investments were made primarily for the enhancement of production capability and productivity, and the amount of capital investment during the fiscal year was ¥12,567 million.

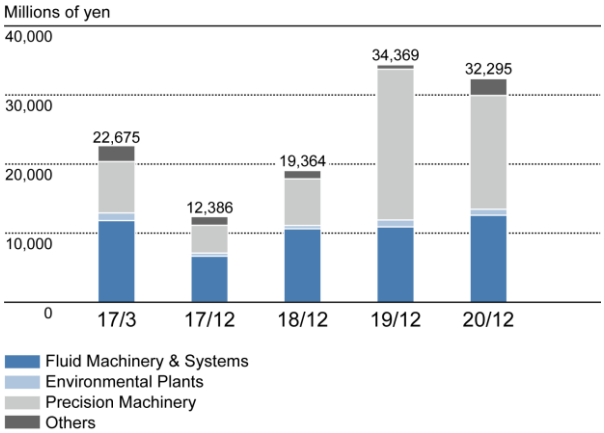
Environmental Plants Business

Investments were made primarily for information technology equipment and for the development of technology aimed at improving functionality. Investments by this segment totaled ¥880 million.

Precision Machinery Business

Investments were made primarily for the enhancement of production capacity. Investments by this segment totaled ¥16,470 million.

Capital Expenditures



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, to fund working capital and investment funds for growth required for business operations. The debt to equity ratio is set at 0.3 to 0.5 to reduce the cost of capital and improve capital efficiency.

The Company intends to control the liquidity of its funds within an appropriate level, targeting two months of consolidated net sales. In addition, we have concluded commitment line contracts and other agreements to deal with financial risks, thereby ensuring liquidity on hand. In order to increase the efficiency of funds within the Group, the Company has a system in place to collect funds into the Company.

Alternative liquidity

Overdraft contracts ¥5,000 million

Commitment line contracts ¥80,000 million

The Company had no borrowings from these sources as of December 31, 2020.

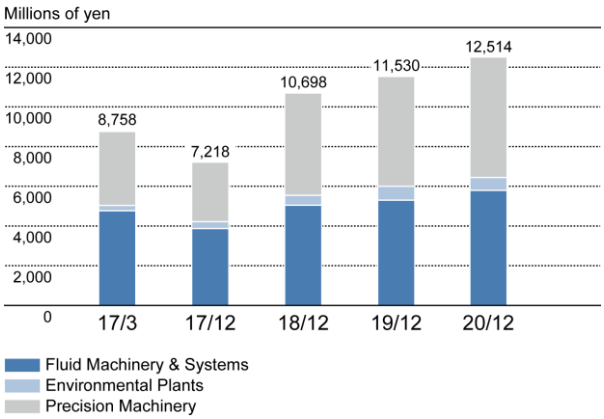
R&D Expenses

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

Each business division and Group company effectively pursued R&D for the practical application of new technologies and the application of new products, as well as collaboration with external organizations, such as business alliances, to increase the added value of technologies and products. The corporate R&D organization played a central role in strengthening the common foundation and strategically important core technologies that support these businesses, as well as in exploring and commercializing technological seeds based on medium- to long-term perspectives. Joint research with universities and other external research institutions was also actively promoted. Furthermore, we are using Ebara Innovation for X (EIX) system, which is a system for creating new businesses, to accelerate efforts in process innovation and the use of outcomes. In addition, we are continually enhancing prototype functions related to research and development by developing collaboration with small to medium-sized companies possessing unique technologies.

R&D expenses amounted to ¥12,514 million during the fiscal year under review.

R&D Expenses



Activities by business segment are as follows:

Fluid Machinery & Systems (FMS) Business

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

In standard pumps, the FMS Company continued to develop a range of products aimed at conserving energy and resources and reducing the environmental burden, expanding the range of series of high-efficiency pump products and launching them on the market. The FMS Company also continued to develop ICT technology products that contribute to labor saving for its customers, and the FMS Company has been implementing customer monitoring at customer sites by using a condition monitoring system that enables to monitor safety of pumps remotely. In custom pumps, the FMS Company continued to develop products aimed at conserving energy and resources and reducing the environmental burden in the energy and water usage fields, and are also developing liquid-hydrogen pumps to contribute to the realization of a hydrogen-based society (NEDO subsidy project). In the compressor and turbine field, the FMS Company continued to develop new high-efficiency turbines that contribute to conserving energy and resources. In the chillers business, the FMS Company continued to develop refrigeration units that use refrigerants with low global warming potential to meet the growing need for reduced environmental impact, and is working to expand its product lineup and expand the range of applications.

In relation to basic technology, the FMS Company carried out technology development in cooperation with the corporate R&D organization. Regarding "new basic production technologies for use in materials processing, welding, surface modification, and processing", the FMS Company is considering mold fabrication using "3D lamination technology" to reduce casting lead time. In addition, "further improvement of development throughput and standardization of related processes by utilizing numerical simulation technologies and new optimization techniques" "expansion of experimental basic technology by introducing PIV (particle image velocimetry) technology," and "development and application of Internet of Things (IoT) technologies for supporting product life cycles that contribute to higher product performance and reliability" are also promoted.

The FMS Company made expenditures on R&D amounting to ¥5,782 million during the fiscal year ended December 31, 2020.

Environmental Plants (EP) Business

In the Environmental Plants Business, the EP Company is engaged in design, build, and operate (DBO) services for waste incineration facilities, which entail providing engineering, procurement, and construction (EPC) and operation and maintenance (O&M) services on a comprehensive, long-term basis. The EP Company is also developing facility lifetime-lengthening operations in which the EP Company makes proposals for extending the lifespan of existing facilities as well as long -term comprehensive management contract operations in which the EP Company receives contracts for long-term O&M services at existing facilities.

In these businesses, current conditions require ever greater abilities to propose solutions, higher quality, and stronger cost competitiveness. In light of these conditions, the EP Company is developing new products and technologies that contribute to strengthening of facilities' functionality through upgrades and to reducing life cycle costs. At the same time, the EP Company's development activities include improving repair, maintenance, and operating technologies as well as utilizing the artificial intelligence and the IoT that support these activities. In addition, the EP Company is working to develop element technologies for improving power generation efficiency and operational stability, with the expectation of higher demand for woody biomass power generation and industrial waste incineration, as a form of renewable energy. Furthermore, the EP Company has resumed the development of gasification technology for chemical recycling of waste plastics, in order to contribute to the solution of climate change and waste plastics, which have recently become global environmental issues.

The EP Company made expenditures on R&D amounting to ¥660 million during the fiscal year ended December 31, 2020.

Precision Machinery (PM) Business

In the Precision Machinery Business, the PM Company is developing new processing equipment and improving existing equipment to manufacture semiconductor devices that are compatible with development requirements not only for the miniaturization of chips and three-dimensional integration, but also for new packaging technology, an area of increasing importance. The PM Company is also tailoring these efforts to the technology development requirements projected for the AI and the IoT market that is growing rapidly. As for component products, the PM Company is developing products that can further contribute to energy savings and reduced environmental footprints. 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.

The PM Company made expenditures on R&D amounting to ¥6,071 million during the fiscal year ended December 31, 2020.

Business Risks

In formulating our Long-term Vision "E-Vision2030" and Medium-term Management Plan "E-Plan2022," we analyze risks related to the Group's business and other activities through scenario-based planning to examine medium-to long-term social conditions and changes in the market environment.

With regard to risks surrounding our Group, we regularly conduct company-wide risk assessments to analyze the possibility of occurrence, the degree of impact, and the remaining risks after countermeasures are taken, among the risks that could be anticipated in light of the business characteristics of the Group.

1. Risks that may affect the Group's Management Performance and Financial Position

(1) Risk of fluctuations as a long-term trend

	Items	Details of Risks	The Group's Measures
1	Global environment and climate change	Changes in the business environment caused by the following events ・Changes in economic conditions due to the impact of global warming ・Severe natural disasters such as typhoons and wildfires	・Forecast of risks and opportunities and implementation of countermeasures based on long-term and diverse scenario analysis ・Preparation and training for business continuity plans in the event of a disaster
2	Rapid globalization	・The possibility of unexpected losses and harmful damages due to lack of knowledge and management experience about overseas transactions and location management	・Thorough implementation of Group governance and internal control ・Human resource development on a Global basis
3	Decline in the working-age population in Japan	・Shortage of successors and supply chain risks in the manufacturing industry as a whole ・Risk of failure to succeed technologies and expertise within the Group	・Securing human resources on a Global basis and optimizing the supply chain ・Promotion of organizational explicit knowledge
4	Information security	・Cyber attacks from outside, artificial negligence on the part of the company or its contractors, natural disasters, infrastructure failures, and other unforeseen circumstances may result in the suspension of important businesses and services, the possibility of leakage of confidential and personal information, and the destruction or falsification of important data.	・Establishment of an information security management system within the Group ・Establishment and operation of various regulations concerning information security, and implementation of employee education and training ・Security measures for software and equipment

(2) Short-term volatility risk

	Items	Details of Risks	The Group's Measures
1	Political factors	・Occurring of unexpected restrictions and expenses in business activities affected by economic conditions and trade due to the impact of intense U.S.-China friction, conflict in the Middle East and Brexit	・Building a supply chain and a value chain considering risks on a global basis
2	Sudden outbreaks of natural disasters and the spread of infectious diseases	Risks that may result in loss of employee life, or interfere with business continuity and profitability due to the following events ・Earthquakes, volcanic eruptions, etc. ・Explosive spread of infectious diseases	・Preliminary estimates and preparations for business continuity plans utilizing the global network ・Promoting efficient and flexible working styles ・Implementation of measures to prevent contagion and spread of disease in cooperation with industrial physicians (for infectious diseases)
3	Currency fluctuations	・Increasing costs due to the difference between forecast and actual results caused by exchange rate fluctuations	・Appropriate currency risk hedges, such as foreign exchange contracts and foreign currency borrowings

(3) Risks by market and business segment

	Items	Details of Risks	The Group's Measures
1	Oil and gas market : Fluid Machinery & Systems (Pumps and Compressors & Turbines)	Significant fluctuations in demand due to changes in market conditions and price levels due to market oligopolization have a sudden impact on earnings. ・Earnings squeezed due to a surplus of production capacity caused by a decline in orders received and sales prices during an economic downturn. ・Risk associated with a decline in market share caused by a shortage of production capacity, including due to supply chains, during an economic upturn	・Resource management with high prediction accuracy by confirming leading indicators, etc. ・Lower break-even point due to efficiency improvement, such as shorter lead-time and automations of design and manufacturing
2	Semiconductor market : Precision Machinery		
3	Domestic construction equipment market : Fluid Machinery & Systems (Pumps and Chillers)	・Profit deterioration due to the shrinking market caused by the decline in demand after the Olympics	・To secure a competitive advantage by differentiating the Group through product development, focusing on the S&S business, and cutting costs through greater operational efficiency ・Shifting resources to the Global market ・Continuous compliance education and internal audits
4	Project for the public sector : Environmental Plants	・Decrease in orders received due to consolidation and abolishment of public facilities caused by a decline in the domestic population ・Concerns over shortage of human resources in facility operations due to the shrinking labor market ・Compliance problems caused by involvement in government bid rigging	

The Group recognizes the possibility of risk and strives to prevent it from occurring and to respond in the event that it occurs.

2. COVID-19 Response Efforts

In order to prevent the spread of infection and to continue business within our Group, we established the COVID-19 Response Headquarters, headed by the president, to continue to implement infection prevention measures and adopt new ways of working during the With Corona period while monitoring the status of the Group's infections on a weekly basis.

In addition, the Board of Directors monitors the status and actions taken against infections, and supervises countermeasures from a medium-to long-term perspective. Each site is continuing its business activities while striving to prevent the spread of infection in accordance with the policies of each country and region.

The rate of telecommuting for employees is set at around 70%, and in order to lower the "concentration" of employees at office, we have established satellite offices and also implemented measures such as staggered working hours. At our manufacturing sites, we maintain normal production activities by introducing a shift work system and limiting the number of employees, while at work sites, thoroughly managing the health of employees and external contractors, such as by checking their temperatures when they enter the work sites.

Going forward, as a company that provides products and services to society and industry while implementing measures to prevent infection on an ongoing basis, the Group will continue its business activities to minimize the impact of COVID-19 on the business and lifestyles of its customers, giving top priority to the health and safety of its employees, customers, and other stakeholders as well as the prevention of the spread of infections.

Others

Litigation

(Progress of Dispute Regarding Fire Accident at Bulky Waste Treatment Facility at the Gifu City Eastern Clean Center)

On October 23, 2015, a fire broke out at the bulky waste treatment facility at the Gifu City Eastern Clean Center, which is located in the Akutami section of Gifu City in Gifu Prefecture, when Ebara Environmental Plant Co., Ltd. ("EEP"), the Company's consolidated subsidiary, was making repairs on the facility. EEP is responsible for the operation and management of a waste incinerating facility that is located adjacent to the bulky waste treatment facility where the fire occurred.

Regarding this incident, while the Company had been discussing with Gifu City the compensation for related damages, a lawsuit against EEP was filed by Gifu City at the Gifu District Court on January 31, 2019 claiming compensation for damages of ¥4,362 million and late charges for such compensation. Afterwards, Gifu City amended its amount of the compensation claim for damages to ¥4,474 million and late charges for such compensation on July 22, 2019, and EEP received the amended petition pertaining to this lawsuit on July 25, 2019. Furthermore, Gifu City amended its amount of the compensation claim for damages to ¥4,582 million and late charges for such compensation on July 17, 2020, and EEP received the amended petition pertaining to this lawsuit on July 20, 2020. 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.

Consolidated Balance Sheet

EBARA CORPORATION and Consolidated Subsidiaries
As of December 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 5)
ASSETS	**2020/12**	2019/12	**2020/12**
Current assets:			
Cash on hand and in banks and securities	**¥123,031**	¥95,112	**$1,188,705**
Notes and accounts receivable trade	**187,289**	182,944	**1,809,556**
Electronically recorded monetary claims	**11,374**	9,218	**109,894**
Allowance for doubtful accounts	**(2,387)**	(2,107)	**(23,063)**
Inventories (Note 6)	**102,603**	121,101	**991,333**
Other current assets	**16,727**	15,659	**161,614**
Total current assets	**¥438,637**	¥421,929	**$4,238,039**
Property, plant and equipment:			
Land	**¥19,581**	¥19,607	**$189,188**
Buildings and structures	**128,069**	125,270	**1,237,382**
Machinery, equipment and vehicles	**140,370**	137,859	**1,356,232**
Lease assets (Note 14)	**3,221**	4,353	**31,121**
Construction in progress	**25,204**	13,665	**243,517**
Other	**40,728**	39,991	**393,507**
	357,175	340,747	**3,450,966**
Accumulated depreciation	**(220,972)**	(215,848)	**(2,134,995)**
Property, plant and equipment, net (Note 7)	**¥136,202**	¥124,898	**$1,315,961**
Investments and other assets:			
Investment securities (Note 16)	**¥5,000**	¥7,118	**48,309**
Investments in and advances to subsidiaries and affiliates	**7,766**	12,703	**75,034**
Long-term loans receivable	**127**	144	**1,227**
Deferred tax assets (Note 20)	**10,631**	9,475	**102,715**
Defined benefit asset (Note 18)	**5,181**	5,017	**50,058**
Other investments	**8,172**	8,487	**78,957**
Other assets	**15,025**	10,906	**145,169**
Allowance for doubtful accounts	**(5,166)**	(5,442)	**(49,913)**
Total investments and other assets	**¥46,737**	¥48,411	**$451,565**
Total assets	**¥621,578**	¥595,239	**$6,005,585**

The accompanying notes are an integral part of these statements.

	Millions of yen		Thousands of U.S. dollars (Note 5)
LIABILITIES AND NET ASSETS	**2020/12**	2019/12	**2020/12**
Current liabilities:			
Short-term loans payable (Notes 7 and 9)	**¥23,352**	¥46,169	**$225,623**
Current portion of long-term debt (Notes 7 and 9)	**4,704**	4,795	**45,449**
Notes and accounts payable trade	**60,508**	60,580	**584,618**
Electronically recorded obligations	**69,230**	59,847	**668,889**
Accrued income taxes	**4,672**	3,233	**45,140**
Lease obligations	**529**	658	**5,111**
Provision for warranties for completed construction	**3,793**	3,369	**36,647**
Provision for product warranties	**4,089**	3,658	**39,507**
Provision for construction losses	**6,096**	12,901	**58,899**
Accrued expenses and other current liabilities	**81,208**	64,866	**784,618**
Total current liabilities	**¥258,185**	¥260,082	**$2,494,541**
Long-term liabilities:			
Long-term debt (Notes 7 and 9)	**¥46,666**	¥28,340	**$450,879**
Lease obligations	**890**	1,021	**8,599**
Provision for directors' retirement benefits	**121**	107	**1,169**
Defined benefit liability (Note 18)	**7,704**	9,362	**74,435**
Deferred tax liabilities (Note 20)	**24**	504	**232**
Asset retirement obligations	**2,264**	2,401	**21,874**
Other long-term liabilities	**1,251**	1,590	**12,087**
Total long-term liabilities	**¥58,922**	¥43,328	**$569,295**
Net assets (Note 12)**:**			
Shareholders' equity:			
Common shares:			
Authorized: 200,000,000 shares			
Issued: 95,391,453 shares at December 31, 2020 and 95,129,853 shares at December 31, 2019	**¥79,451**	¥79,155	**$767,643**
Capital surplus	**75,144**	74,848	**726,029**
Retained earnings	**156,486**	141,675	**1,511,942**
Treasury shares:			
20,422 shares at December 31, 2020 and 5,784 shares at December 31, 2019	**(178)**	(174)	**(1,720)**
Total shareholders' equity	**¥310,903**	¥295,504	**$3,003,894**
Accumulated other comprehensive income:			
Net unrealized gains (losses) on investment securities	**202**	233	**1,952**
Deferred gains (losses) on hedges	**(54)**	(24)	**(522)**
Translation adjustments	**(6,280)**	(2,891)	**(60,676)**
Remeasurements of defined benefit plans	**(8,538)**	(9,168)	**(82,493)**
Total accumulated other comprehensive income	**¥(14,671)**	¥(11,852)	**$(141,749)**
Subscription rights to shares	**765**	1,132	**7,391**
Non-controlling interests	**7,472**	7,043	**72,193**
Total net assets	**¥304,470**	¥291,827	**$2,941,739**
Total liabilities and net assets	**¥621,578**	¥595,239	**$6,005,585**

Consolidated Statement of Income

EBARA CORPORATION and Consolidated Subsidiaries
For the fiscal years ended December 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2020/12	2019/12	2020/12
Net sales	**¥523,727**	¥522,424	**$5,060,164**
Cost of sales	**379,087**	385,736	**3,662,676**
Gross profit	**144,639**	136,688	**1,397,478**
Selling, general and administrative expenses	**106,760**	101,389	**1,031,498**
Operating income	**37,879**	35,298	**365,981**
Other income (expenses):			
Interest and dividends income	**382**	596	**3,691**
Interest expenses	**(1,162)**	(1,444)	**(11,227)**
Gain (loss) on sales of securities, net	**(150)**	569	**(1,449)**
Loss on valuation of securities and other investments	**0**	(2)	**0**
Gain (loss) on sales and retirement of fixed assets, net	**(417)**	159	**(4,029)**
Impairment loss (Note 10)	**(244)**	(1,112)	**(2,357)**
Other, net	**(240)**	1,120	**(2,319)**
	(1,833)	(113)	**(17,710)**
Income before income taxes	**36,045**	35,184	**348,261**
Income taxes (Note 20):			
Current taxes	**9,325**	7,268	**90,097**
Deferred tax expenses (benefits)	**533**	2,777	**5,150**
	9,859	10,045	**95,256**
Profit	**26,186**	25,139	**253,005**
Profit attributable to non-controlling interests	**1,713**	1,789	**16,551**
Profit attributable to owners of parent	**¥24,473**	¥23,349	**$236,454**

	Yen		U.S. dollars
Per share of common stock:			
Profit attributable to owners of parent	**¥256.85**	¥241.79	**$2.482**
Fully diluted profit attributable to owners of parent	**255.82**	240.57	**2.472**
Cash dividends (Note 12)	**90.00**	60.00	**0.870**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Comprehensive Income

EBARA CORPORATION and Consolidated Subsidiaries
For the fiscal years ended December 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2020/12	2019/12	2020/12
Profit	**¥26,186**	¥25,139	**$253,005**
Other comprehensive income:			
Net unrealized gains (losses) on investment securities	**(48)**	(194)	**(464)**
Deferred gains (losses) on hedges	**(30)**	32	**(290)**
Translation adjustments	**(2,644)**	(1,758)	**(25,546)**
Remeasurements of defined benefit plans	**530**	1,764	**5,121**
Share of other comprehensive income of associates accounted for using equity method	**120**	60	**1,159**
Total other comprehensive income (Note 11)	**¥(2,073)**	¥(95)	**$(20,029)**
Comprehensive income:	**¥24,113**	¥25,043	**$232,976**
Total comprehensive income attributable to:			
Owners of parent	**¥22,373**	¥23,299	**$216,164**
Non-controlling interests	**1,740**	1,744	**16,812**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Assets

EBARA CORPORATION and Consolidated Subsidiaries
For the fiscal years ended December 31, 2020 and 2019

		Millions of yen				
		Shareholders' equity				
	Number of shares issued	Common shares	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2020	95,129,853	¥79,155	¥74,848	¥141,675	¥(174)	¥295,504
Cumulative effects of changes in accounting principle				**(4,473)**		**(4,473)**
Restated balance		**79,155**	**74,848**	**137,201**	**(174)**	**291,030**
Changes during the fiscal year						
Issuance of new shares	**261,600**	**296**	**296**			**592**
Cash dividends				**(5,713)**		**(5,713)**
Profit attributable to owners of parent				**24,473**		**24,473**
Change of scope of consolidation				**525**		**525**
Purchase of treasury shares					**(3)**	**(3)**
Disposal of treasury shares						**—**
Cancellation of treasury shares						**—**
Cumulative effects of changes in US GAAP related to US Tax Reform Act						**—**
Net changes of items other than shareholders' equity						**—**
Total changes during the fiscal year	**261,600**	**296**	**296**	**19,284**	**(3)**	**19,873**
Balance at December 31, 2020	**95,391,453**	**¥79,451**	**¥75,144**	**¥156,486**	**¥(178)**	**¥310,903**

	Millions of yen							
	Accumulated other comprehensive income							
	Net unrealized gains (losses) on investment securities	Deferred gains (losses) on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at January 1, 2020	¥233	¥(24)	¥(2,891)	¥(9,168)	¥(11,852)	¥1,132	¥7,043	¥291,827
Cumulative effects of changes in accounting principle								**(4,473)**
Restated balance	**233**	**(24)**	**(2,891)**	**(9,168)**	**(11,852)**	**1,132**	**7,043**	**287,353**
Changes during the fiscal year								
Issuance of new shares								**592**
Cash dividends								**(5,713)**
Profit attributable to owners of parent								**24,473**
Change of scope of consolidation								**525**
Purchase of treasury shares								**(3)**
Disposal of treasury shares								**—**
Cancellation of treasury shares								**—**
Cumulative effects of changes in US GAAP related to US Tax Reform Act								**—**
Net changes of items other than shareholders' equity	**(30)**	**(30)**	**(3,389)**	**630**	**(2,819)**	**(366)**	**428**	**(2,757)**
Total changes during the fiscal year	**(30)**	**(30)**	**(3,389)**	**630**	**(2,819)**	**(366)**	**428**	**17,116**
Balance at December 31, 2020	**¥202**	**¥(54)**	**¥(6,280)**	**¥(8,538)**	**¥(14,671)**	**¥765**	**¥7,472**	**¥304,470**

The accompanying notes are an integral part of these statements.

		Thousands of U.S. dollars (Note 5)				
		Shareholders' equity				
	Number of shares issued	Common shares	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2020	95,129,853	$764,783	$723,169	$1,368,841	$(1,681)	$2,855,111
Cumulative effects of changes in accounting principle				**(43,217)**		**(43,217)**
Restated balance		**764,783**	**723,169**	**1,325,614**	**(1,681)**	**2,811,884**
Changes during the fiscal year						
Issuance of new shares	**261,600**	**2,860**	**2,860**			**5,720**
Cash dividends				**(55,198)**		**(55,198)**
Profit attributable to owners of parent				**236,454**		**236,454**
Change of scope of consolidation				**5,072**		**5,072**
Purchase of treasury shares					**(29)**	**(29)**
Disposal of treasury shares						**—**
Cancellation of treasury shares						**—**
Cumulative effects of changes in US GAAP related to US Tax Reform Act						**—**
Net changes of items other than shareholders' equity						**—**
Total changes during the fiscal year	**261,600**	**2,860**	**2,860**	**186,319**	**(29)**	**192,010**
Balance at December 31, 2020	**95,391,453**	**$767,643**	**$726,029**	**$1,511,942**	**$(1,720)**	**$3,003,894**

	Thousands of U.S. dollars (Note 3)							
	Accumulated other comprehensive income							
	Net unrealized gains (losses) on investment securities	Deferred gains (losses) on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at January 1, 2020	$2,251	$(232)	$(27,932)	$(88,580)	$(114,512)	$10,937	$68,048	2,819,585
Cumulative effects of changes in accounting principle								**(43,217)**
Restated balance	**2,251**	**(232)**	**(27,932)**	**(88,580)**	**(114,512)**	**10,937**	**68,048**	**2,776,357**
Changes during the fiscal year								
Issuance of new shares								**5,720**
Cash dividends								**(55,198)**
Profit attributable to owners of parent								**236,454**
Change of scope of consolidation								**5,072**
Purchase of treasury shares								**(29)**
Disposal of treasury shares								**—**
Cancellation of treasury shares								**—**
Cumulative effects of changes in US GAAP related to US Tax Reform Act								**—**
Net changes of items other than shareholders' equity	**(290)**	**(290)**	**(32,744)**	**6,087**	**(27,237)**	**(3,536)**	**4,135**	**(26,638)**
Total changes during the fiscal year	**(290)**	**(290)**	**(32,744)**	**6,087**	**(27,237)**	**(3,536)**	**4,135**	**165,372**
Balance at December 31, 2020	**$ 1,952**	**$(522)**	**$(60,676)**	**$(82,493)**	**$(141,749)**	**$7,391**	**$72,193**	**$2,941,739**

		Millions of yen				
		Shareholders' equity				
	Number of shares issued	Common shares	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at January 1, 2019	101,957,853	¥79,066	¥80,296	¥135,715	¥(5,439)	¥289,639
Cumulative effects of changes in accounting principle				424		424
Restated balance		79,066	80,296	136,140	(5,439)	290,063
Changes during the fiscal year						
Issuance of new shares	(6,828,000)	88	88			176
Cash dividends				(5,877)		(5,877)
Profit attributable to owners of parent				23,349		23,349
Change of scope of consolidation				947		947
Purchase of treasury shares					(15,004)	(15,004)
Disposal of treasury shares			(0)		0	0
Cancellation of treasury shares			(5,536)	(14,733)	20,269	—
Cumulative effects of changes in US GAAP related to US Tax Reform Act				1,848		1,848
Net changes of items other than shareholders' equity						—
Total changes during the fiscal year	(6,828,000)	88	(5,448)	5,535	5,264	5,440
Balance at December 31, 2019	95,129,853	¥79,155	¥74,848	¥141,675	¥(174)	¥295,504

	Millions of yen							
	Accumulated other comprehensive income							
	Net unrealized gains (losses) on investment securities	Deferred gains (losses) on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	Total net assets
Balance at January 1, 2019	¥381	¥(57)	¥(1,226)	¥(9,096)	¥(9,999)	¥1,152	¥5,985	¥286,778
Cumulative effects of changes in accounting principle								424
Restated balance	381	(57)	(1,226)	(9,096)	(9,999)	1,152	5,985	287,202
Changes during the fiscal year								
Issuance of new shares								176
Cash dividends								(5,877)
Profit attributable to owners of parent								23,349
Change of scope of consolidation								947
Purchase of treasury shares								(15,004)
Disposal of treasury shares								0
Cancellation of treasury shares								—
Cumulative effects of changes in US GAAP related to US Tax Reform Act								1,848
Net changes of items other than shareholders' equity	(148)	32	(1,665)	(71)	(1,852)	(20)	1,057	(815)
Total changes during the fiscal year	(148)	32	(1,665)	(71)	(1,852)	(20)	1,057	4,625
Balance at December 31, 2019	¥233	¥(24)	¥(2,891)	¥(9,168)	¥(11,852)	¥1,132	¥7,043	¥291,827

The accompanying notes are an integral part of these statements.

Consolidated Statement of Cash Flows

EBARA CORPORATION and Consolidated Subsidiaries
For the fiscal years ended December 31, 2020 and 2019

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2020/12	2019/12	2020/12
Cash Flows from Operating Activities:			
Income before income taxes	**¥36,045**	¥35,184	**$348,261**
Depreciation and amortization	**15,963**	15,132	**154,232**
Impairment loss	**244**	1,112	**2,357**
Loss (gain) on sales of securities and investment securities	**150**	(569)	**1,449**
Increase (decrease) in provisions	**1,649**	(3,110)	**15,932**
Increase (decrease) in net defined benefit liability	**(1,671)**	(1,009)	**(16,145)**
Loss (gain) on sales of fixed assets	**(16)**	(362)	**(155)**
Interest and dividends income	**(382)**	(596)	**(3,691)**
Interest expenses	**1,162**	1,444	**11,227**
Decrease (increase) in notes and accounts receivable trade	**(4,467)**	(8,457)	**(43,159)**
Decrease (increase) in inventories	**9,024**	1,192	**87,188**
Increase (decrease) in notes and accounts payable trade	**2,596**	(4,963)	**25,082**
Increase/decrease in other assets/liabilities	**12,546**	373	**121,217**
Other loss (gain)	**(831)**	(258)	**(8,029)**
Subtotal	**72,014**	35,111	**695,787**
Interest and dividends received	**680**	588	**6,570**
Interest expenses paid	**(1,126)**	(1,429)	**(10,879)**
Income taxes paid	**(7,334)**	(7,550)	**(70,860)**
Net cash provided by operating activities	**64,234**	26,720	**620,618**
Cash Flows from Investing Activities:			
Purchase of fixed assets	**(31,172)**	(28,040)	**(301,179)**
Proceeds from sales of fixed assets	**93**	540	**899**
Purchase of securities and investment securities	**(693)**	(3,678)	**(6,696)**
Proceeds from sales and redemption of securities and investment securities	**2,471**	7,115	**23,874**
Payments into time deposits	**(3,501)**	(2,055)	**(33,826)**
Proceeds from withdrawal of time deposits	**3,713**	2,041	**35,874**
Payments of loans receivable	**(32)**	(101)	**(309)**
Collection of loans receivable	**54**	29	**522**
Others	**(3)**	71	**(29)**
Net cash used in investing activities	**(29,071)**	(24,077)	**(280,879)**
Cash Flows from Financing Activities:			
Net increase (decrease) in short-term loans payable	**(10,202)**	1,874	**(98,570)**
Proceeds from long-term loans payable	**2,772**	2,585	**26,783**
Repayment of long-term loans payable	**(4,426)**	(2,108)	**(42,763)**
Proceeds from issuance of bonds	**10,000**	—	**96,618**
Proceeds from issuance of common shares	**0**	0	**0**
Proceeds from disposal of treasury shares	**—**	0	**—**
Purchase of treasury shares	**(3)**	(15,004)	**(29)**
Cash dividends paid	**(5,713)**	(5,877)	**(55,198)**
Cash dividends paid to non-controlling interests	**(1,276)**	(687)	**(12,329)**
Others	**(777)**	(970)	**(7,507)**
Net cash used in financing activities	**(9,628)**	(20,188)	**(93,024)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(246)**	(346)	**(2,377)**
Increase (Decrease) in Cash and Cash Equivalents	**25,287**	(17,891)	**244,319**
Cash and Cash Equivalents:			
At the beginning of the fiscal year:			
Balance brought forward	**93,351**	110,556	**901,942**
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	**1,904**	686	**18,396**
At the end of the fiscal year (Note 13)	**¥120,544**	¥93,351	**$1,164,676**

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

EBARA CORPORATION and Consolidated Subsidiaries

1. Basis of Presenting Consolidated Financial Statements

The Company and its subsidiaries maintain their records and prepare their statutory financial statements in accordance with generally accepted accounting principles in Japan, and its foreign subsidiaries in conformity with those of the countries of their domicile, which are substantially equivalent to generally accepted accounting principles in the United States or International Financial Reporting Standards (IFRS). The accompanying consolidated financial statements were also prepared in accordance with generally accepted accounting principles in Japan.

Certain amounts in the prior year's financial statements have been restated to conform to the current year's presentation.

Amounts of less than one million yen have been rounded down to the nearest million yen and amounts of less than one thousand U.S. dollars have been rounded off to the nearest thousand U.S. dollars respectively in the presentation of the accompanying consolidated financial statements. As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

2. Summary of Significant Accounting Policies

Basis of consolidation

The consolidated financial statements include the accounts of the Company and those of certain of its subsidiaries. All significant intercompany transactions and accounts are eliminated in consolidation.

As of December 31, 2020, the numbers of consolidated subsidiaries, non-consolidated subsidiaries that applied the equity method, and affiliated companies that applied the equity method were 96, 0, and 1 (65, 0, and 1 on December 31, 2019), respectively.

For affiliated companies accounted for using the equity method with fiscal year-ends that differ from the consolidated balance sheet date, financial statements prepared based on provisional calculations performed as of the consolidated balance sheet date are used when preparing consolidated financial statements.

The differences, at the time of acquisition or new consolidation, between the cost and underlying net equity of investments in consolidated subsidiaries are included in other assets and are amortized on a straight-line basis over a reasonable estimated period of time no greater than 20 years in respect of each particular difference. Differences deemed immaterial may be recognized in profit or loss of the period in which they arise.

For consolidated subsidiaries with fiscal year-ends that differ from consolidated balance sheet date, financial statements prepared based on provisional calculations performed as of the consolidated balance sheet date are used when preparing consolidated financial statements.

Foreign currency translation

Foreign currency denominated trade receivables and payables are translated into yen at the rate prevailing at the balance sheet date. Investments are translated into yen at the exchange rates prevailing at the time the transactions occur.

Assets and liabilities of foreign consolidated subsidiaries are translated into yen at the appropriate year-end rates. Revenue, expenses, and net income of these companies are also translated into yen at the appropriate year-end rates. Capital contributed to those companies by the parent company is translated at the rates prevailing at the time the transactions were made. Receivables and payables with the parent company are translated at the same rates used by the parent company, and the resultant translation adjustments are recognized in net assets.

Investment securities and other financial instruments

Investment securities and other financial instruments are valued using the following methods:

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

(b) Securities not having market value are recorded at the gross average cost.

(c) Bonds held to maturity are stated at cost less accumulated amortization.

(d) Other financial assets (or instruments), including golf memberships, are valued at market value, if available.

Inventories

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

Property, plant and equipment and related depreciation (except lease assets)

The straight-line method is used as the primary method for computing depreciation. Please note that the method for depreciating minor assets valued from ¥100,000 to less than ¥200,000 is the lump-sum method specified in the Japanese corporate income tax laws, and these assets are depreciated in equal amounts over a three-year period.

Intangible assets and investments and other assets (except lease assets)

Intangible assets are mainly amortized on a straight-line basis, according to the criteria specified in the corporate income tax laws.

Software for internal use is amortized on a straight-line basis over an estimated useful life of five years.

Lease assets

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

Allowance for doubtful accounts

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

Provision for warranties for completed construction

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

Provision for product warranties

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

Provision for construction losses

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

Inventories related to construction contracts on which losses are expected and the provision for construction losses are both presented on the balance sheet without offsetting. The value of inventories related to construction contracts on which losses are expected and recognized as provision for construction losses was ¥200 million ($1,932 thousand) (comprising work in process of ¥200 million ($1,932 thousand)) and ¥8,568 million (comprising work in process of ¥8,568 million) for the fiscal years ended December 31, 2020 and 2019 respectively.

The provision for construction losses contained in cost of sales was ¥958 million ($9,256 thousand) and ¥4,272 million for the fiscal years ended December 31, 2020 and 2019 respectively.

Provision for directors' retirement benefits

In domestic consolidated subsidiaries, provision for directors' retirement benefits is accrued at the amounts of the future liabilities in relation to the length of service at the balance sheet date.

Retirement benefits

i. Method of attribution of projected benefit obligations

In the calculation of defined benefit liability, the method used to attribute projected benefit obligations in the period up to the fiscal year is based on the benefit formula basis.

ii. Method of amortization of actuarial gain or loss and past service cost

Past service cost is amortized using the straight-line method over a certain number of years within the average remaining service period of employees at the time of accrual.

Actuarial gain or loss is amortized starting in the fiscal year following the fiscal year in which the gain or loss is recognized using the declining balance method over a certain number of years within the average remaining service period of employees.

iii. Adoption of the simplified accounting method in small companies, etc.

Certain consolidated subsidiaries adopt the simplified accounting method in calculating their net defined benefit

liabilities and retirement benefit expenses. Under the simplified method, retirement benefit obligations are calculated as the total amount of retirement allowance to be payable when all eligible employees voluntarily terminated their employment at the year-end.

Revenue recognition

As the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018 (hereinafter "Revenue Recognition Standard")) and "Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018) became applicable from the beginning of the fiscal year starting on and after April 1, 2018, the Company has decided to adopt the Revenue Recognition Standard from the beginning of the fiscal year ended December 31, 2020, and recognize revenue at the amount expected to be received in exchange for its goods or services when the dominance of the promised goods or services is transferred to a customer.

Hedge accounting methods

Hedging transactions

For foreign exchange contracts that fulfill the requirements for deferral hedge accounting under the Accounting Standards for Financial Instruments, the following method is applied in accordance with generally accepted accounting principles in Japan. The difference between the amount of hedged foreign currency denominated receivables or payables at the current spot rate and the equivalent amount at the forward rate is recognized through profit or loss over the period from the forward exchange contract date to the settlement date. For interest-rate swaps that fulfill the requirements for special exceptions under the Accounting Standards for Financial Instruments, such special exceptions are adopted.

Hedging instruments and hedged items

Hedging instruments

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

Hedged items

Foreign currency dominated receivables or payables, loan payables.

Hedging policy

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

Assessing the effectiveness of hedging

Interest risk

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

Currency exchange rate risk

As long as a hedging instrument corresponds with a hedged item, the hedge is considered effective.

Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured by applying the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

Stock and bond issue costs

Stock and bond issue costs are charged to income as incurred.

Research and development costs

Costs relating to research and development activities are charged to income as incurred. Research and development costs charged to income were ¥12,514 million ($120,908 thousand) and ¥11,530 million for the fiscal years ended December 31, 2020 and 2019 respectively.

Cash and cash equivalents in consolidated statement of cash flows

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with insignificant risk of changes in value that have maturities of three months or less.

Profit (loss) attributable to owners of parent and dividends per share

Primary profit (loss) attributable to owners of parent per share of common stock is based on the average number of shares of common stock outstanding (excluding treasury shares) during each period.

Common share equivalents on subscription rights to shares and convertible bonds are not taken into consideration for the aforementioned computation. Fully diluted profit attributable to owners of parent per share of common stock is computed assuming outstanding convertible bonds at that date are all converted to common shares after adjustment of after-tax debt servicing costs and outstanding subscription rights to shares at that date are all exercised to common shares, unless an antidilutive effect results.

Consumption tax

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

Consolidated taxation system

A consolidated taxation system is applied.

Adoption of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System

Pursuant to paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (ASBJ PITF No.39, March 31, 2020), the Company and some of its consolidated subsidiaries do not apply the provisions of paragraph 44 of the "Guidance on Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) for items that transitioned to the group tax sharing system established in the "Act for Partial Amendment of the Income Tax Act, etc." (Act No.8 of 2020) and those for which the non-consolidated taxation system was reviewed in conjunction with the transition to the group tax sharing system. Accordingly, the amounts of deferred tax assets and deferred tax liabilities are recognized based on the provisions of the tax act before the revision.

3. Accounting Changes

Changes in Accounting Policies

Application of Accounting Standard for Revenue Recognition

As the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018 (hereinafter "Revenue Recognition Standard")) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018) became applicable from the beginning of the fiscal year starting on and after April 1, 2018, the Company has decided to adopt the Revenue Recognition Standard from the beginning of the fiscal year ended December 31, 2020, and recognize revenue at the amount expected to be received in exchange for its goods or services when the dominance of the promised goods or services is transferred to a customer.

The main changes due to the adoption of the Revenue Recognition Standard are as follows.

1. Performance Obligation to Be Satisfied Over a Period of Time

Previously, the percentage of completion method was applied to construction contracts for which performance results are deemed certain in terms of the progress portion, and the completed contract method was applied to other construction contracts. However, except for small amounts and very short term construction contracts, the method has been changed and revenues are recognized over a period of time by measuring the progress of performance obligations toward satisfaction. The method of estimating the progress rate for fulfillment of performance obligations is based on the ratio of the actual cost to the estimated total cost (input method) if the result of performance obligations can be reasonably measured. If the result of performance obligations cannot be reasonably measured, revenue is recognized only to the extent of actual costs incurred. For small amounts and very short term construction contracts, revenue is recognized when the performance obligations are fully satisfied.

2. Performance Obligation to Be Satisfied at a Point in Time

Previously, in the PM Business, revenue of semiconductor manufacturing equipment was recognized when installation at the customer site was completed. However, it is now determined that revenue should be recognized when performance verification after installation at the customer site is completed.

With regard to the adoption of the Revenue Recognition Standard, in accordance with the transitional treatment stipulated in the proviso to paragraph 84 of the Revenue Recognition Standard, the cumulative effect of retroactively adopting the new accounting policy prior to the beginning of the fiscal year ended December 31, 2020 has been added to or deducted from retained earnings from the beginning of the fiscal year ended December 31, 2020, and the new accounting policy has been adopted from the beginning balance of the fiscal year ended March 31, 2020.

However, the method stipulated in paragraph 86 of the Revenue Recognition Standard has been adopted, and the new accounting policy has not been adopted retrospectively to contracts for which the amounts of almost all of revenue had been recognized prior to the beginning of the fiscal year ended December 31, 2020 in accordance with the previous accounting policy.

In addition, the Company has adopted the method stipulated in the proviso (1) to paragraph 86 of the Revenue Recognition Standard. Based on the contract conditions after applying all changes in contracts made prior to the beginning of the fiscal year ended December 31, 2020, the following processes a to c were carried out and the cumulative effect has been added to or deducted from the beginning balance of retained earnings for the fiscal year ended December 31, 2020.

a. Classification of satisfied and unsatisfied performance obligations

b. Determination of transaction prices

c. Allocation of transaction prices to satisfied and unsatisfied performance obligations

As a result, for the fiscal year ended December 31, 2020, sales increased by ¥4,805 million ($46,425 thousand), cost of sales increased by ¥2,895 million ($27,971 thousand), SG&A decreased by ¥516 million ($4,986 thousand), operating income, ordinary income and income before income taxes increased by ¥2,425 million ($23,430 thousand) respectively. The beginning balance of retained earnings decreased by ¥4,473 million ($43,217 thousand). Net assets per share decreased by ¥29.31, net income per share increased by ¥17.62 and diluted net income per share increased by ¥17.55.

4. Additional Information

Spread of COVID-19

The spread of COVID-19 continues worldwide. It is still a major threat, and the situation remains unpredictable. On the other hand, the trend toward the coexistence of infectious prevention and economic activities, called "with Corona," is becoming more active, and demand for social and industrial infrastructure has been recovering.

The impact of COVID-19 to the Group's business is limited. Regarding the next fiscal year, our accounting estimates are made based on the assumption that the business environment maintains its stability.

However, if the impact of the spread of COVID-19 diverges from this assumption, the Group's financial position and financial results may be affected.

Business Combination through Acquisition

The Company has resolved at the meeting of the Board of Directors held on December 14, 2020 to make a stock purchase agreement to acquire all outstanding shares of Çiğli Su Teknolojileri A.Ş., the parent company of Vansan Makina Sanayi ve Ticaret A.Ş., a Turkish pump manufacturer, and Vansan Makina Montaj ve Pazarlama A.Ş. The Company entered into this agreement with the current shareholders on December 21, 2020.

1. Overview of the Business Combination

(1)Name and Business of Acquired Companies

Names of Acquired Companies

Çiğli Su Teknolojileri A.Ş.

Vansan Makina Sanayi ve Ticaret A.Ş.

Vansan Makina Montaj ve Pazarlama A.Ş.

Business Description

Manufacture and sale of deep well motor pumps and vertical-type pumps

(2) Primary Reason for the Business Combination

To enhance the Company's global supply chain by strengthening access to markets in Europe, Central Asia, the Middle East and Africa in order to further expand its Standard Pumps Business.

(3) Date of the Business Combination

April 2021 (plan)

(4) Legal Form of the Business Combination

Cash acquisition of shares

(5) Company Name after the Business Combination

There are no changes.

(6) Percentage of Voting Rights after the Acquisition

100%

(7) Primary Basis for Determining the Acquiring Company

The Company (EBARA CORPORATION) acquires the shares in exchange for cash.

2. Details of Acquisition Costs and Type of Consideration

Consideration (Cash): $105 million (approximate)

Acquisition Costs: $105 million (approximate)

5. U.S. Dollar Amounts

The U.S. dollar amounts are included solely for convenience and have been translated as a matter of arithmetical computation only at the rate of ¥103.5=US$1, the rate of exchange prevailing on December 30, 2020.

6. Inventories

Inventories comprised the following:

As of December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Merchandise and finished goods	**¥20,333**	¥18,386	**$196,454**
Work in process	**47,648**	70,082	**460,367**
Raw materials and supplies	**34,621**	32,633	**334,502**
Total	**¥102,603**	¥121,101	**$991,333**

7. Pledged Assets and Related Liabilities

Pledged assets were as follows:

As of December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Buildings and structures	**¥3,302**	¥3,702	**$31,903**
Others	**956**	453	**9,237**
Total	**¥4,258**	¥4,155	**$41,140**

Collateral for loans was as follows:

As of December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Short-term loans payable and current portion of long-term loans payable	**¥104**	¥203	**$1,005**
Long-term loans payable	**15**	129	**145**

Pledged assets for purposes other than loans payable were as follows:

As of December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Buildings and structures	**¥805**	¥1,040	**$7,778**
Others	**880**	375	**8,502**

8. Commitments and Contingent Liabilities

The Company and its consolidated subsidiaries had the following commitments and contingent liabilities:

As of December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Loans guaranteed:			
Non-consolidated subsidiaries and affiliates	**¥—**	¥722	**$—**
The Ebara Hatakeyama Memorial Foundation	**153**	—	**1,478**
Other	**33**	42	**319**

9. Short-Term Loans Payable and Long-Term Debt

As of December 31, 2020 and 2019, short-term loans payable amounted to ¥23,352 million ($225,623 thousand) and ¥46,169 million, respectively. Short-term loans payable are due within in one year or less.

As of December 31, 2020 and 2019, ¥120 million ($1,159 thousand) and ¥333 million of short-term loans payable, current portion of long-term loans payable and long-term loans payable were collateralized using portions of the Group's assets amounting to ¥4,258 million ($41,140 thousand) and ¥4,155 million, respectively.

The weighted-average interest rates for short-term loans payable and current portion of long-term loans payable as of December 31, 2020 and 2019 were 1.499% and 1.667%, respectively.

Long-term debt (excluding lease obligations) comprised of the following:

As of December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Secured	**¥120**	¥333	**$1,159**
Unsecured	**31,250**	22,803	**301,932**
0.18% unsecured yen bonds due 2022 issued in the domestic market	**10,000**	10,000	**96,618**
0.19% unsecured yen bonds due 2025 issued in the domestic market	**10,000**	—	**96,618**
	51,371	33,136	**496,338**
Less: current portion due within one year	**(4,704)**	(4,795)	**(45,449)**
Total	**¥46,666**	¥28,340	**$450,879**

The maturities of long-term debt (excluding lease obligations) are summarized as follows:

As of December 31	Millions of yen	Thousands of U.S. dollars
2021	**¥4,704**	**$45,449**
2022	**13,695**	**132,319**
2023	**21,592**	**208,618**
2024	**946**	**9,140**
2025	**10,432**	**100,792**
2026 and thereafter	—	**—**

10. Impairment Loss of Long-Lived Assets

Fiscal year ended December 31, 2020

The Group reported impairment loss of long-lived assets amounting to ¥244 million ($2,357 thousand) for the fiscal year ended December 31, 2020. The impairment loss was recognized in the following asset groups: Idle assets, assets held for sale, and assets to be disposed of.

1. Outline of asset grouping

The Group categorizes its assets according to its business segments, except idle assets, assets held for sale, and assets to be disposed of which are grouped individually.

2. Recognition of impairment loss

Since buildings and structures, machinery, equipment and vehicles and others classified as idle assets and buildings and structures, machinery, equipment and vehicles and others to be disposed of are no longer expected to contribute to future economic inflow in future periods, and the expected sales price of machinery, equipment and vehicles, land and other held for sale is below the book value of such assets, the Group has written down the book value to the recoverable amount.

3. Computation of recoverable value

The net sales value is used to calculate the recoverable value of assets. Assets held for sale are calculated at the expected sales price. For land classified as an idle asset, reasonable estimates of its recoverable value have been made based on the expected sales price, land price used for tax assessment and other information. Assets to be disposed of are calculated at the memorandum value.

Fiscal year ended December 31, 2019

The Group reported impairment loss of long-lived assets amounting to ¥1,112 million for the fiscal year ended December 31, 2019. The impairment loss was recognized in the following asset groups: Idle assets, assets held for sale, and assets to be disposed of.

1. Outline of asset grouping

The Group categorizes its assets according to its business segments, except idle assets, assets held for sale, and assets to be disposed of which are grouped individually.

2. Recognition of impairment loss

Since land classified as an idle asset and buildings and structures, machinery, equipment and vehicles and others to be disposed of are no longer expected to contribute to future economic inflow in future periods, and the expected sales price of buildings and structures and land held for sale is below the book value of such assets, the Group has written down the book value to the recoverable amount.

3. Computation of recoverable value

The net sales value is used to calculate the recoverable value of assets. Assets held for sale are calculated at the expected sales price. For land classified as an idle asset, reasonable estimates of its recoverable value have been made based on the expected sales price, land price used for tax assessment and other information. Assets to be disposed of are calculated at the memorandum value.

11. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the fiscal years ended December 31, 2020 and 2019:

For the fiscal years ended December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Net unrealized gains (losses) on investment securities:			
Amount arising during the fiscal year	**¥80**	¥288	**$773**
Reclassification adjustments for gains (losses) realized in net income	**(150)**	(569)	**(1,449)**
Amount of net unrealized gains (losses) on investment securities before tax effect	**(70)**	(280)	**(676)**
Tax effect	**21**	85	**203**
Net unrealized gains (losses) on investment securities	**(48)**	(194)	**(464)**
Deferred gains (losses) on hedges:			
Amount arising during the fiscal year	**(44)**	2	**(425)**
Reclassification adjustments for gains (losses) realized in net income	**(1)**	71	**(10)**
Amount of deferred gains (losses) on hedges before tax effect	**(46)**	73	**(444)**
Tax effect	**15**	(40)	**145**
Deferred gains (losses) on hedges	**(30)**	32	**(290)**
Translation adjustments:			
Amount arising during the fiscal year	**(2,644)**	(1,758)	**(25,546)**
Remeasurements of defined benefit plans:			
Amount arising during the fiscal year	**387**	1,879	**3,739**
Reclassification adjustments for gains (losses) realized in net income	**102**	453	**986**
Amount before tax effect	**490**	2,333	**4,734**
Tax effect	**39**	(568)	**377**
Remeasurements of defined benefit plans	**530**	1,764	**5,121**
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the fiscal year	**120**	60	**1,159**
Total other comprehensive income	**¥(2,073)**	¥(95)	**$(20,029)**

12. Net Assets

The Companies Act of Japan (Act No. 86 of 2005, as amended) provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the total of the capital reserve and the legal reserve equals 25% of the common shares account.

Such distributions can be made at any time by resolution of the General Meeting of Shareholders, or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

Dividends

1. Dividends paid

For the fiscal year ended December 31, 2020

Resolution	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Regular General Meeting of Shareholders on March 27, 2020	Common shares	**¥2,853**	**$27,565**	**¥30.00**	**$0.290**	December 31, 2019	March 30, 2020

Resolution	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Board Meeting on August 11, 2020	Common shares	**¥2,859**	**$27,623**	**¥30.00**	**$0.290**	June 30, 2020	September 11, 2020

For the fiscal year ended December 31, 2019

Resolution	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Cut-off date	Effective date
Regular General Meeting of Shareholders on March 28, 2019	Common shares	**¥3,000**	**¥30.00**	December 31, 2018	March 29, 2019

Resolution	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Cut-off date	Effective date
Board Meeting on August 9, 2019	Common shares	**¥2,876**	**¥30.00**	June 30, 2019	September 10, 2019

2. Dividends with the cut-off date in the fiscal year ended December 31, 2020 and the effective date in the fiscal year ending December 31, 2021

Resolution	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S. dollars)	Source of dividends	Dividends per share (yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Regular General Meeting of Shareholders on March 26, 2021	Common shares	**¥5,722**	**$55,285**	Retained earnings	**¥60.00**	**$0.580**	December 31, 2020	March 29, 2021

Dividends with the cut-off date in the fiscal year ended December 31, 2019 and the effective date in the fiscal year ended December 31, 2020

Resolution	Type of shares	Total dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Cut-off date	Effective date
Regular General Meeting of Shareholders on March 27, 2020	Common shares	**¥2,853**	Retained earnings	**¥30.00**	December 31, 2019	March 30, 2020

13. Supplementary Cash Flow Information

The reconciliation of cash and cash equivalents in the consolidated statement of cash flows for the fiscal years ended December 31, 2020 and 2019 to cash on hand and in banks and securities in the consolidated balance sheet is as follows:

For the fiscal years ended December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Cash on hand and in banks	**¥121,996**	¥94,014	**$1,178,705**
Securities	**1,035**	1,097	**10,000**
Securities and others with maturities of more than three months	**—**	(1)	**—**
Time deposits with maturities of more than three months	**(2,487)**	(1,759)	**(24,029)**
Cash and cash equivalents	**¥120,544**	¥93,351	**$1,164,676**

14. Leases

(As lessee)

1. Finance lease transactions

Finance lease transactions other than those for which the ownership transfers to the lessee

(1) Components of lease assets

Property, plant and equipment

This mainly comprises production equipment (tools, furniture and fixtures, etc.).

(2) Depreciation method of lease assets

This is presented under "Lease assets" in "Note 2. Summary of Significant Accounting Policies."

2. Operating lease transactions

Future minimum lease payments for non-cancelable operating leases as of December 31, 2020 and 2019 are summarized as follows:

As of December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Due within one year	**¥704**	¥901	**$6,802**
Due after one year	**1,866**	1,900	**18,029**
Total	**¥2,570**	¥2,801	**$24,831**

15. Financial Instruments

1. Status of financial instruments

(1) Policies regarding financial instruments

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

(2) Types and risks of financial instruments

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

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

Notes and accounts payable trade and electronically recorded obligations, which are operating liabilities, are settled, for the most part, within one year. In addition, a portion of these, which arise in connection with imports of motors and other items, are denominated in foreign currencies and are exposed to foreign currency risk; however, in general, the balance of these liabilities is within the amounts of accounts receivable trade denominated in foreign

currencies. Among these, a portion of borrowings have floating interest rates and are subject to interest-rate risk. These are hedged through the use of derivatives (interest-rate swaps).

Derivative transactions comprise forward exchange contract transactions for the purpose of hedging exchange rate fluctuation risk for trade payables and receivables denominated in foreign currencies and interest rate swap transactions for the purpose of hedging interest rate fluctuation risk for interest payable on loans. Further information on hedge accounting, including hedging instruments, hedged items, hedging policy and assessment of hedge effectiveness can be found in the previous section entitled "Hedge accounting methods" in "Note 2. Summary of Significant Accounting Policies."

(3) Risk management systems for financial instruments

a. Management of credit risk (risk related to nonperformance of contractual obligations by transaction counterparties)

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

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

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

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

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

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

For derivatives, the Company and its consolidated subsidiaries manage such exposure based on the Company's policies for management of financial instruments.

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

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

(4) Supplementary information on the fair value of financial instruments

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

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

2. Information on the fair value of financial instruments

The amounts shown on the consolidated balance sheet as of December 31, 2020 and 2019 (the Company's fiscal year-end), the corresponding fair values, and differences between book and fair value are as follows.

Please note that the values of the financial instruments for which ascertaining the fair value is deemed to be extremely difficult have not been included. (Refer to Note 2.)

	Millions of yen		
As of December 31, 2020	On consolidated balance sheet	Fair value	Difference
Cash on hand and in banks	**¥121,996**	**¥121,996**	**¥—**
Notes and accounts receivable trade	**187,289**		
Electronically recorded monetary claims	**11,374**		
Allowance for doubtful accounts (*1)	**(2,387)**		
	¥196,275	**¥196,227**	**¥(48)**
Securities and investment securities	**1,058**	**1,058**	**—**
Total	**¥319,331**	**¥319,283**	**¥(48)**
Notes and accounts payable trade	**60,508**	**60,508**	**—**
Electronically recorded obligations	**69,230**	**69,230**	**—**
Short-term loans payable	**23,352**	**23,352**	**—**
Current portion of long-term loans payable	**4,704**	**4,704**	**—**
Bonds payable	**20,000**	**20,074**	**74**
Long-term loans payable	**26,666**	**26,721**	**54**
Total	**¥204,461**	**¥204,591**	**¥129**
Derivative transactions (*2)	**¥(44)**	**¥(44)**	**¥—**

	Thousands of U.S. dollars		
As of December 31, 2020	On consolidated balance sheet	Fair value	Difference
Cash on hand and in banks	**$1,178,705**	**$1,178,705**	**$—**
Notes and accounts receivable trade	**1,809,556**		
Electronically recorded monetary claims	**109,894**		
Allowance for doubtful accounts (*1)	**(23,063)**		
	$1,896,377	**$1,895,913**	**$(464)**
Securities and investment securities	**10,222**	**10,222**	**—**
Total	**$3,085,324**	**$3,084,860**	**$(464)**
Notes and accounts payable trade	**$584,618**	**$584,618**	**$—**
Electronically recorded obligations	**$668,889**	**$668,889**	**—**
Short-term loans payable	**225,623**	**225,623**	**—**
Current portion of long-term loans payable	**45,449**	**45,449**	**—**
Bonds payable	**193,237**	**193,952**	**715**
Long-term loans payable	**257,643**	**258,174**	**522**
Total	**$1,975,469**	**$1,976,725**	**$1,246**
Derivative transactions (*2)	**$(425)**	**$(425)**	**$—**

As of December 31, 2019	Millions of yen		
	On consolidated balance sheet	Fair value	Difference
Cash on hand and in banks	¥94,014	¥94,014	¥—
Notes and accounts receivable trade	182,944		
Electronically recorded monetary claims	9,218		
Allowance for doubtful accounts (*1)	(2,107)		
	¥190,056	¥190,017	¥(38)
Securities and investment securities	3,286	3,286	—
Total	¥287,357	¥287,318	¥(38)
Notes and accounts payable trade	60,580	60,580	—
Electronically recorded obligations	59,847	59,847	—
Short-term loans payable	46,169	46,169	—
Current portion of long-term loans payable	4,795	4,795	—
Bonds payable	10,000	10,034	34
Long-term loans payable	18,340	18,473	132
Total	¥199,735	¥199,902	¥167
Derivative transactions (*2)	¥1	¥1	¥—

(*1) The full amount of the allowance for doubtful accounts is excluded. Please note that the allowance for doubtful accounts is presented collectively as a deduction item from notes receivable trade, accounts receivable trade, electronically recorded monetary claims, and accounts receivable-other.

(*2) The net amount of the assets and liabilities is shown.

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

(1) Assets

a. Cash on hand and in banks

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

b. Notes and accounts receivable trade and electronically recorded monetary claims

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

c. Securities and investment securities

The fair value for stocks is based on quoted market prices. The value for bonds is determined using quoted market prices or financial institutions. Also, negotiable certificates of deposit are settled within short periods and are shown at their respective book value, which approximates their fair values. For securities held to maturity and others, please refer to "Note 16. Marketable and Investment Securities."

(2) Liabilities

a. Notes and accounts payable trade, electronically recorded obligations, and short-term loans payable

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

b. Bonds payable and long-term loans payable

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

(3) Derivative transactions

Please refer to "Note 17. Derivative Financial Instruments."

Note 2: Financial instruments for which ascertaining the fair value is deemed to be extremely difficult

As of December 31, 2020 and 2019	On consolidated balance sheet		
	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Stocks of affiliated companies	**¥7,766**	¥12,547	**$75,034**
Unlisted stocks	**4,976**	4,929	48,077
Total	**¥12,742**	¥17,477	**$123,111**

Note: Market values are not available for these stocks and, since ascertaining their fair value is deemed to be extremely difficult, the values of these stocks have not been included in "Securities and investment securities."

Note 3: Monetary claims and securities with maturity dates that are scheduled to be amortized after the fiscal year-end

As of December 31, 2020	Millions of yen			
	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years
Cash on hand and in banks	**¥121,996**	**¥—**	**¥—**	**¥—**
Notes and accounts receivable trade	**169,118**	**14,128**	**4,041**	**—**
Electronically recorded monetary claims	**11,374**	**—**	**—**	**—**
Securities and investment securities:				
Investment securities with maturity:				
Negotiable certificates of deposit	**1,035**	**—**	**—**	**—**
Total	**¥303,524**	**¥14,128**	**¥4,041**	**¥—**

As of December 31, 2020	Thousands of U.S. dollars			
	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years
Cash on hand and in banks	**$1,178,705**	**$—**	**$—**	**$—**
Notes and accounts receivable trade	**1,633,990**	**136,502**	**39,043**	**—**
Electronically recorded monetary claims	**109,894**	**—**	**—**	**—**
Securities and investment securities:				
Investment securities with maturity:				
Negotiable certificates of deposit	**10,000**	**—**	**—**	**—**
Total	**2,932,599**	**$136,502**	**$39,043**	**$—**

As of December 31, 2019	Millions of yen			
	Within 1 year	Over 1 year and within 5 years	Over 5 years and within 10 years	Over 10 years
Cash on hand and in banks	¥94,014	¥—	¥—	¥—
Notes and accounts receivable trade	164,077	18,519	347	—
Electronically recorded monetary claims	9,218	—	—	—
Securities and investment securities:				
Investment securities with maturity:				
Negotiable certificates of deposit	1,096	—	—	—
Total	¥268,406	¥18,519	¥347	¥—

Note 4: Interest-bearing debt that is scheduled to be repaid after the fiscal year-end

	Millions of yen					
As of December 31, 2020	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years
Short-term loans payable	**¥23,352**	**¥—**	**¥—**	**¥—**	**¥—**	**¥—**
Bonds payable	**—**	**10,000**	**—**	**—**	**10,000**	**—**
Long-term loans payable	**4,704**	**3,695**	**21,592**	**946**	**432**	**—**
Lease obligations	**529**	**471**	**228**	**111**	**46**	**32**
Total	**¥28,586**	**¥14,166**	**¥21,820**	**¥1,058**	**¥10,478**	**¥32**

	Thousands of U.S. dollars					
As of December 31, 2020	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years
Short-term loans payable	**$225,623**	**$—**	**$—**	**$—**	**$—**	**$—**
Bonds payable	**—**	**96,618**	**—**	**—**	**96,618**	**—**
Long-term loans payable	**45,449**	**35,700**	**208,618**	**9,140**	**4,174**	**—**
Lease obligations	**5,111**	**4,551**	**2,203**	**1,072**	**444**	**309**
Total	**$276,193**	**$136,870**	**$210,821**	**$10,222**	**$101,237**	**$309**

	Millions of yen					
As of December 31, 2019	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years
Short-term loans payable	¥46,169	¥—	¥—	¥—	¥—	¥—
Bonds payable	—	—	10,000	—	—	—
Long-term loans payable	4,795	4,180	3,121	10,656	382	—
Lease obligations	658	479	231	179	53	76
Total	¥51,624	¥4,659	¥13,353	¥10,835	¥436	¥76

16. Marketable and Investment Securities

Marketable and investment securities comprise securities which have fair value. The book value, gross unrealized gains and losses, and fair value for such securities at December 31, 2020 and December 31, 2019 are as follows.

Held-to-maturity securities:

As of December 31, 2020

No items to be reported.

As of December 31, 2019

No items to be reported.

Other securities:

	Millions of yen			
As of December 31, 2020	Historical cost	Unrealized gains	Unrealized losses	Book value
Book value over historical cost				
Equity securities	**¥12**	**¥11**	**¥—**	**¥23**
Historical cost over book value				
Equity securities	—	—	—	—
Others	**1,035**	—	—	**1,035**

	Thousands of U.S. dollars			
As of December 31, 2020	Historical cost	Unrealized gains	Unrealized losses	Book value
Book value over historical cost				
Equity securities	**$116**	**$106**	**$—**	**$222**
Historical cost over book value				
Equity securities	—	—	—	—
Others	**10,000**	—	—	**10,000**

	Millions of yen			
As of December 31, 2019	Historical cost	Unrealized gains	Unrealized losses	Book value
Book value over historical cost				
Equity securities	¥1,326	¥127	¥—	¥1,453
Historical cost over book value				
Equity securities	781	—	(44)	736
Others	1,096	—	—	1,096

Proceeds from sales of marketable and investment securities and realized gains and losses for the fiscal years ended December 31, 2020 and 2019 are as follows.

	Millions of yen		
Fiscal year ended December 31, 2020	Proceeds from sales	Realized gains	Realized losses
Equity securities	**¥1,945**	**¥76**	**¥227**

	Thousands of U.S. dollars		
Fiscal year ended December 31, 2020	Proceeds from sales	Realized gains	Realized losses
Equity securities	**$18,792**	**$734**	**$2,193**

	Millions of yen		
Fiscal year ended December 31, 2019	Proceeds from sales	Realized gains	Realized losses
Equity securities	¥4,872	¥713	¥143

Impairment loss on securities:

For the fiscal years ended December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Others	**¥0**	¥2	**$0**

17. Derivative Financial Instruments

Fiscal year ended December 31, 2020

1. Derivatives not subject to hedge accounting

(1) Currency related

Omitted due to immateriality.

(2) Interest-rate related

No items to be reported.

2. Derivatives subject to hedge accounting

(1) Currency related

Method	Transaction	Hedged items	Millions of yen		
			Contractual value	Contractual value over 1 year	Fair value
Deferred hedge accounting	Forward exchange contract	Accounts receivable trade			
	To sell:				
	EUR		**¥305**	**¥—**	**¥(20)**
	YEN		**578**	**—**	**(20)**
	GBP		**39**	**—**	**(4)**
	Total		**¥923**	**¥—**	**¥(44)**

Method	Transaction	Hedged items	Thousands of U.S. dollars		
			Contractual value	Contractual value over 1 year	Fair value
Deferred hedge accounting	Forward exchange contract	Accounts receivable trade			
	To sell:				
	EUR		**$2,947**	**$—**	**$(193)**
	YEN		**5,585**	**—**	(193)
	GBP		**377**	**—**	(39)
	Total		**$8,918**	**$—**	**$(425)**

Note: Fair value is computed based on quotes from financial institutions, among other sources.

(2) Interest-rate related

No items to be reported.

Fiscal year ended December 31, 2019

1. Derivatives not subject to hedge accounting

(1) Currency related

Omitted due to immateriality.

(2) Interest-rate related

No items to be reported.

2. Derivatives subject to hedge accounting

(1) Currency related

Method	Transaction	Hedged items	Millions of yen		
			Contractual value	Contractual value over 1 year	Fair value
Deferred hedge accounting	Forward exchange contract	Accounts receivable trade			
	To sell:				
	EUR		¥509	¥—	¥(0)
	YEN		1,829	—	1
	Total		¥2,338	¥—	¥1

Note: Fair value is computed based on quotes from financial institutions, among other sources.

(2) Interest-rate related

No items to be reported.

18. Retirement Benefits

The Company and certain consolidated subsidiaries have either funded or unfunded defined benefit plans and a defined contribution plan.

The Company and certain consolidated subsidiaries have defined benefit plans that consist of a defined-benefit corporate pension plan and a lump-sum payment plan. Further, the Company has set up a retirement benefit trust. Also, certain consolidated subsidiaries apply the simplified method to calculate the retirement benefit obligation. In addition, the Company and certain consolidated 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.

1. The changes in the retirement benefit obligation during the fiscal years ended December 31, 2020 and 2019 are as follows:

For the fiscal years ended December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Balance at the beginning of the year	**¥74,203**	¥70,159	**$716,937**
Service cost	**2,868**	3,386	**27,710**
Interest cost	**1,317**	1,683	**12,725**
Actuarial (gain) loss	**2,583**	3,994	**24,957**
Retirement benefits paid	**(4,169)**	(4,662)	**(40,280)**
Others	**(1,838)**	(357)	**(17,758)**
Balance at the end of the year	**¥74,966**	¥74,203	**$724,309**

2. The changes in plan assets during the fiscal years ended December 31, 2020 and 2019 are as follows:

For the fiscal years ended December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Balance at the beginning of the year	**¥69,859**	¥62,516	**$674,966**
Expected return on plan assets	**2,238**	2,240	**21,623**
Actuarial gain (loss)	**2,770**	5,727	**26,763**
Company contributions	**2,475**	3,086	**23,913**
Retirement benefits paid	**(3,063)**	(3,451)	**(29,594)**
Others	**(1,838)**	(260)	**(17,758)**
Balance at the end of the year	**¥72,443**	¥69,859	**$699,932**

3. The following table sets forth the funded status of the plan and the amounts recognized in the consolidated balance sheet as of December 31, 2020 and 2019 for the defined benefit plans:

As of December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Funded retirement benefit obligation	**¥59,861**	¥59,256	**$578,367**
Plan assets	**(72,443)**	(69,859)	**(699,932)**
	(12,582)	(10,603)	**(121,565)**
Unfunded retirement benefit obligation	**15,105**	14,947	**145,942**
Net liability for retirement benefits in the consolidated balance sheet	**2,522**	4,344	**24,367**
Defined benefit liability	**7,704**	9,362	**74,435**
Defined benefit asset	**(5,181)**	(5,017)	**(50,058)**
Net liability for retirement benefits in the consolidated balance sheet	**¥2,522**	¥4,344	**$24,367**

4. The components of retirement benefit expense for the fiscal years ended December 31, 2020 and 2019 are as follows:

For the fiscal years ended December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Service cost	**¥2,868**	¥3,386	**$27,710**
Interest cost	**1,317**	1,683	**12,725**
Expected return on plan assets	**(2,238)**	(2,240)	**(21,623)**
Amortization of actuarial loss (gain)	**49**	404	**473**
Amortization of past service cost	**53**	49	**512**
Others	**(4)**	85	**(39)**
Retirement benefit expense	**¥2,045**	¥3,368	**$19,758**

5. The components of remeasurements of defined benefit plans (before tax effect) for the fiscal years ended December 31, 2020 and 2019 are as follows:

For the fiscal years ended December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Past service cost	**¥(351)**	¥48	**$(3,391)**
Actuarial gain (loss)	**841**	2,284	**8,126**
Total	**¥490**	¥2,333	**$4,734**

6. Unrecognized past service cost and actuarial gain (loss) included in remeasurements of defined benefit plans of accumulated other comprehensive income (before tax effect) as of December 31, 2020 and 2019 are as follows:

As of December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Unrecognized past service cost	**¥(499)**	¥(160)	**$(4,821)**
Unrecognized actuarial gain (loss)	**(8,214)**	(9,089)	**(79,362)**
Total	**¥(8,714)**	¥(9,250)	**$(84,193)**

7. Plan assets

(1) Plan assets

Percentages of total plan assets for major components as of December 31, 2020 and 2019 are as follows:

As of December 31, 2020 and 2019		
	2020/12	2019/12
Stocks	**22%**	24%
Debt securities	**57%**	55%
General accounts	**16%**	16%
Others	**5%**	6%
Total	**100%**	100%

Note: A retirement benefit trust set up for the corporate pension plan as of December 31, 2020 and 2019 accounts for 12% and 13% respectively of total plan assets.

(2) Method of determining expected long-term rate of return on plan assets

In determining an expected long-term rate of return on plan assets, the Company considers current and projected plan asset allocations and current and expected future long-term rates of return on various components of plan assets.

8. Assumptions used for actuarial calculation

The assumptions used mainly for actuarial calculation for the above plans were as follows:

For the fiscal years ended December 31, 2020 and 2019		
	2020/12	2019/12
Assumptions to determine above obligation and cost:		
Discount rate (the Company and domestic subsidiaries)	**0.5%**	0.5%
Discount rate (foreign subsidiaries)	**2.4%**	3.4%
Expected long-term rate of return on plan assets (the Company and domestic subsidiaries)	**2.0%**	2.0%
Expected long-term rate of return on plan assets (foreign subsidiaries)	**4.8%**	5.3%

9. Defined contribution plans

The amount to be paid by the Company and its consolidated subsidiaries to defined contribution plans for the fiscal years ended December 31, 2020 and 2019 were ¥2,439 million ($23,565 thousand) and ¥2,086 million, respectively.

19. Stock Options

1. Items and amounts of related expenses presented in the consolidated accounts for the fiscal years ended December 31, 2020 and 2019 are as follows:

For the fiscal years ended December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Cost of sales	**¥(3)**	¥14	**$(29)**
Selling, general and administrative expenses	**(21)**	87	**(203)**

2. Description and movement of stock options

(1) Description of stock options

	1st subscription rights to shares
Scope and number of people eligible to be granted stock options	1. Directors excluding outside directors in the Company: 9 people 2. Executive officers in the Company: 23 people
Number of stock options granted by type of stock	Common shares: 244,600 shares (Note 1)
Granted date	November 5, 2009
Vesting conditions	(Note 3)
Vesting period	No relevant service period has been established.
Exercise period	From July 1, 2011 to November 5, 2024

Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.

2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company and during a period of five years after retiring from those positions.

3. If the Company's consolidated return on equity (ROE; the "attained performance") is less than 8.0% (the "target performance") for the final fiscal year-end within a two-year period (the "final fiscal year"), those granted stock options may only exercise stock option rights for a number of shares calculated by multiplying the number of stock option rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the attained performance by the target performance).

4. When those granted stock options are those newly appointed as directors or executive officers after July 1, 2009, or when those granted stock options retire from their positions as directors or executive officers before the final day of the final fiscal year, the number of stock option rights they may exercise is calculated by multiplying the adjusted figure described in Note 3 above by a tenure period ratio (a figure representing the ratio of days of tenure to the number of days in the period from April 1, 2009, through March 31, 2011).

5. When the calculations described in Notes 3 and 4 above result in numbers of exercisable stock option rights including a fraction of a right (a figure less than one), this fractional right is to be discarded.

6. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.

7. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year, whichever is later.

8. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

	2nd subscription rights to shares
Scope and number of people eligible to be granted stock options	Executive officers in the Company: 4 people
Number of stock options granted by type of stock	Common shares: 7,200 shares (Note 1)
Granted date	September 28, 2010
Vesting conditions	(Note 3)
Vesting period	No relevant service period has been established.
Exercise period	From July 1, 2011 to November 5, 2024

Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.

2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company and during a period of five years after retiring from those positions.

3. If the Company's consolidated return on equity (ROE; the "attained performance") is less than 8.0% (the "target performance") for the final fiscal year-end within a one-year period (the "final fiscal year"), those granted stock options may only exercise stock option rights for a number of shares calculated by multiplying the number of stock option rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the attained performance by the target performance).

4. When those granted stock options are those newly appointed as directors or executive officers after July 1, 2010, or when those granted stock options retire from their positions as directors or executive officers before the final day of the final fiscal year, the number of stock option rights they may exercise is calculated by multiplying the adjusted figure described in Note 3 above by a tenure period ratio (a figure representing the ratio of days of tenure to the number of days in the period from April 1, 2010, through March 31, 2011).

5. When the calculations described in Notes 3 and 4 above result in numbers of exercisable stock option rights including a fraction of a right (a figure less than one), this fractional right is to be discarded.

6. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.

7. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year, whichever is later.

8. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

	3rd subscription rights to shares
Scope and number of people eligible to be granted stock options	1. Directors excluding outside directors in the Company: 8 people 2. Executive officers in the Company: 23 people
Number of stock options granted by type of stock	Common shares: 323,000 shares (Note 1)
Granted date	September 27, 2011
Vesting conditions	(Note 3)
Vesting period	No relevant service period has been established.
Exercise period	From July 1, 2014 to June 30, 2026

Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.

2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company and during a period of five years after retiring from those positions.

3. If the Company's consolidated return on invested capital (ROIC; the "attained performance") is less than 8.0% (the "target performance") for the final fiscal year-end within a three-year period (the "final fiscal year"), those granted stock options may only exercise stock option rights for a number of shares calculated by multiplying the number of stock option rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the attained performance by the target performance).

4. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.

5. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year, whichever is later.

6. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

	4th subscription rights to shares
Scope and number of people eligible to be granted stock options	1. Directors excluding outside directors in the Company: 4 people 2. Executive officers in the Company: 4 people 3. Directors and executive officers in subsidiaries: 10 people
Number of stock options granted by type of stock	Common shares: 106,800 shares (Note 1)
Granted date	October 1, 2012
Vesting conditions	(Note 3)
Vesting period	No relevant service period has been established.
Exercise period	From July 1, 2014 to June 30, 2026

Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.

2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company or subsidiaries and during a period of five years after retiring from those positions.

3. If the Company's consolidated return on invested capital (ROIC; the "attained performance") reaches 8.0% (the "target performance") for the final fiscal year that ends within a two-year period from the date of grant of stock options (the "final fiscal year"), those granted stock options may exercise all stock option rights. On the other hand, if the Company's attained performance is less than the target performance for the final fiscal year, those granted stock options may only exercise stock option rights for a number of shares calculated by multiplying the number of stock option rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the attained performance by the target performance).

4. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.

5. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year, whichever is later.

6. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

	5th subscription rights to shares
Scope and number of people eligible to be granted stock options	1. Directors excluding outside directors in the Company: 5 people 2. Executive officers in the Company: 4 people 3. Directors and executive officers in subsidiaries: 7 people
Number of stock options granted by type of stock	Common shares: 42,400 shares (Note 1)
Granted date	October 1, 2013
Vesting conditions	(Note 3)
Vesting period	No relevant service period has been established.
Exercise period	From July 1, 2014 to June 30, 2026

Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.

2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company or subsidiaries and during a period of five years after retiring from those positions.

3. If the Company's consolidated return on invested capital (ROIC; the "attained performance") reaches 8.0% (the "target performance") for the final fiscal year that ends within a one-year period from the date of grant of stock options (the "final fiscal year"), those granted stock options may exercise all stock option rights. On the other hand, if the Company's attained performance is less than the target performance for the final fiscal year, those granted stock options may only exercise stock option rights for a number of shares calculated by multiplying the number of stock option rights by the vesting ratio (a figure with a lower limit of 0.5 calculated by dividing the attained performance by the target performance).

4. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.

5. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year, whichever is later.

6. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

	6th subscription rights to shares
Scope and number of people eligible to be granted stock options	1. Directors excluding outside directors in the Company: 8 people 2. Executive officers in the Company: 19 people 3. Directors and executive officers in subsidiaries: 16 people
Number of stock options granted by type of stock	Common shares: 261,800 shares (Note 1)
Granted date	October 1, 2014
Vesting conditions	(Note 3)
Vesting period	No relevant service period has been established.
Exercise period	From July 1, 2017 to June 30, 2029

Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.

2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company or subsidiaries and during a period of five years after retiring from those positions.

3. If the Company's consolidated return on invested capital (ROIC; the "attained performance") reaches 7.0% (the "target performance") for the final fiscal year that ends within a three-year period from the date of grant of stock options (the "final fiscal year"), those granted stock options may exercise all stock option rights. On the other hand, if the target performance is not met, the number of exercisable stock option rights shall not exceed an amount defined by multiplying the number of allotted rights by the degree of achievement－which shall be the number obtained by dividing the attained performance by the target performance and not less than 0.5 (the "post-performance adjustment upper limit for exercisable rights"). However, an exception may be made when a rights holder was also allocated other stock option rights during the period from October 1, 2014, to the final day of the final fiscal year, but this provision will be limited to rights for the other stock option scheme that is part of the stock-linked compensation plan that is similar to the stock options (the "similar stock options"). Should the post-performance adjustment upper limit for exercisable rights for similar stock options allocated prior to the allocation of the stock options include a fraction less than one, this fraction will be added to the post-performance adjustment upper limit for exercisable rights for the stock options. One is the unit of exercise of the stock option and the fraction is not exercisable.

4. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.

5. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of death or until a date six months after the last day of the final fiscal year, whichever is later.

6. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

	7th subscription rights to shares
Scope and number of people eligible to be granted stock options	1. Non-executive directors (including outside directors) in the Company: 11 people 2. Executive officers in the Company: 15 people 3. Directors and executive officers in subsidiaries: 5 people
Number of stock options granted by type of stock	Common shares: 89,400 shares (Note 1)
Granted date	October 1, 2015
Vesting conditions	(Note 5)
Vesting period	No relevant service period has been established.
Exercise period	From July 1, 2017 to June 30, 2029

Notes: 1. Options are presented after conversion to the number of shares. The number of shares is calculated in consideration of a consolidation of common shares at a rate of one share for every five shares that the Company has executed with an effective date of October 1, 2016.

2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company or subsidiaries and during a period of five years after retiring from those positions.

3. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.

4. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of 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 date of the grant of stock options (the "final fiscal year"), whichever is later.

5. The following conditions are stipulated in stock option grant contracts agreed between the Company and those granted stock options based on the position of the individual granted stock options. The unit of exercise of stock options is one and the fraction is not exercisable.

(1) When those granted stock options are executive officers of the Company or directors or executive officers of subsidiaries of the Company as of the grant date.

(Attained performance conditions)

If the Company's consolidated return on invested capital (ROIC; the "attained performance") reaches 7.0% (the "target performance") for the final fiscal year, those granted stock options may exercise all stock option rights. On the other hand, if the target performance is not achieved, the number of exercisable stock option rights shall not exceed an amount defined by multiplying the number of allotted rights by the degree of achievement—which shall be the number obtained by dividing the attained performance by the target performance and not less than 0.5 (the "post-performance adjustment upper limit for exercisable rights"). However, an exception may be made when a rights holder was also allocated other stock option rights during the period from October 1, 2014, to the final day of the final fiscal year, but this provision will be limited to rights for the other stock option scheme that is part of the stock-linked compensation plan that is similar to the stock options (the "similar stock options"). Should the post-performance adjustment upper limit for exercisable rights for similar stock options allocated prior to the allocation of the stock options include a fraction less than one, this fraction will be added to the post-performance adjustment upper limit for exercisable rights for the stock options. Other details are stipulated in the stock option grant contracts.

(2) When those granted stock options are outside directors of the Company as of the grant date

(Exercise period limitations)

Regardless of the provisions described above, stock options may not be exercisable during three years after the date of the grant of stock options.

(3) When those granted stock options are non-executive directors of the Company (excluding outside directors) as of the grant date

The period for exercise for all or some of the stock options granted to non-executive directors shall follow the provision described in (2) above, and the attained performance conditions described in (1) above shall also be applied for the remainder. Details are stipulated in the stock option grant contracts.

6. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

	8th subscription rights to shares
Scope and number of people eligible to be granted stock options	1. Non-executive directors (including outside directors) in the Company: 11 people 2. Executive officers in the Company: 5 people 3. Directors and executive officers in subsidiaries: 5 people
Number of stock options granted by type of stock	Common shares: 38,000 shares (Note 1)
Granted date	October 1, 2016
Vesting conditions	(Note 5)
Vesting period	No relevant service period has been established.
Exercise period	From July 1, 2017 to June 30, 2029

Notes: 1. Options are presented after conversion to the number of shares.

2. Those granted stock options may exercise those options only while serving as directors or executive officers of the Company or subsidiaries and during a period of five years after retiring from those positions.

3. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.

4. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of 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 date of the grant of stock options (the "final fiscal year"), whichever is later.

5. The following conditions are stipulated in stock option grant contracts agreed between the Company and those granted stock options based on the position of the individual granted stock options. The unit of exercise of stock options is one and the fraction is not exercisable.

(1) When those granted stock options are executive officers of the Company or directors or executive officers of subsidiaries of the Company as of the grant date.

(Attained performance conditions)

If the Company's consolidated return on invested capital (ROIC; the "attained performance") reaches 7.0% (the "target performance") for the final fiscal year, those granted stock options may exercise all stock option rights. On the other hand, if the target performance is not achieved, the number of exercisable stock option rights shall not exceed an amount defined by multiplying the number of allotted rights by the degree of achievement－which shall be the number obtained by dividing the attained performance by the target performance and not less than 0.5 (the "post-performance adjustment upper limit for exercisable rights"). However, an exception may be made when a rights holder was also allocated other stock option rights during the period from October 1, 2014, to the final day of the final fiscal year, but this provision will be limited to rights for the other stock option scheme that is part of the stock-linked compensation plan that is similar to the stock options (the "similar stock options"). Should the post-performance adjustment upper limit for exercisable rights for similar stock options allocated prior to the allocation of the stock options include a fraction less than one, this fraction will be added to the post-performance adjustment upper limit for exercisable rights for the stock options. Other details are stipulated in the stock option grant contracts.

(2) When those granted stock options are outside directors of the Company as of the grant date

(Exercise period limitations)

Regardless of the provisions described above, stock options may not be exercisable during three years after the date of the grant of stock options.

(3) When those granted stock options are non-executive directors of the Company (excluding outside directors) as of the grant date

The period for exercise for all or some of the stock options granted to non-executive directors shall follow the provision described in (2) above, and the attained performance conditions described in (1) above shall also be applied for the remainder. Details are stipulated in the stock option grant contracts.

6. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

	9th subscription rights to shares
Scope and number of people eligible to be granted stock options	1. Non-executive directors (including outside directors) in the Company: 10 people 2. Executive officers in the Company: 12 people 3. Senior Officers in the Company: 19 people 4. Directors and senior officers in subsidiaries: 10 people
Number of stock options granted by type of stock	Common shares: 73,700 shares (Note 1)
Granted date	October 1, 2017
Vesting conditions	(Note 5)
Vesting period	No relevant service period has been established.
Exercise period	From April 1, 2020 to March 31, 2032

Notes: 1. Options are presented after conversion to the number of shares.

2. Those granted stock options may exercise those options only while serving as directors or executive officers and/or senior officers of the Company or subsidiaries and during a period of five years after retiring from those positions.

3. When those who were granted stock options are recognized to have executed their official duties in an illegal or improper manner during their tenure, it is possible for the Company to restrict the number of stock option rights that the people in question may exercise based on a decision by the Board of Directors. In such cases, the people granted stock options in question may not exercise a number of stock options in excess of the restricted number.

4. When those granted stock options die, the heirs of those people may exercise the stock options until a date three months after the day following the date of 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 date of the grant of stock options (the "final fiscal year"), whichever is later.

5. The following conditions are stipulated in stock option grant contracts agreed between the Company and those granted stock options based on the position of the individual granted stock options. The unit of exercise of stock options is one and the fraction is not exercisable.

(1) When those granted stock options are executive officers and/or senior officers of the Company or directors or senior officers of subsidiaries of the Company as of the grant date

(Attained performance conditions)

If the Company's consolidated return on invested capital (ROIC; the "attained performance") reaches 8.0% (the "target performance") for the final fiscal year, those granted stock options may exercise all stock option rights. On the other hand, if the target performance is not achieved, the number of exercisable stock option rights shall not exceed an amount defined by multiplying the number of allotted rights by the degree of achievement－which shall be the number obtained by dividing the attained performance by the target performance and not less than 0.5 (the "post-performance adjustment upper limit for exercisable rights"). However, an exception may be made when a rights holder was also allocated other stock option rights during the period from October 1, 2017, to the final day of the final fiscal year, but this provision will be limited to rights for the other stock option scheme that is part of the stock-linked compensation plan that is similar to the stock options (the "similar stock options"). Should the post-performance adjustment upper limit for exercisable rights for similar stock options allocated prior to the allocation of the stock options include a fraction less than one, this fraction will be added to the post-performance adjustment upper limit for exercisable rights for the stock options. Other details are stipulated in the stock option grant contracts.

(2) When those granted stock options are outside directors of the Company as of the grant date

(Exercise period limitations)

Regardless of the provisions described above, stock options may not be exercisable during three years after the date of the grant of stock options.

(3) When those granted stock options are non-executive directors of the Company (excluding outside directors) as of the grant date

The period for exercise for all or some of the stock options granted to non-executive directors shall follow the provision described in (2) above, and the attained performance conditions described in (1) above shall also be applied for the remainder. Details are stipulated in the stock option grant contracts.

6. In addition to the provisions described in each of the previous notes, the exercise of stock options is to be undertaken in accordance with the conditions stipulated in "stock option grant contracts" agreed between the Company and those granted stock options.

(2) Movement of stock options and status of related changes

With respect to stock options existing during the fiscal year ended December 31, 2020, the relevant numbers of stock options and numbers of shares issuable on the conversion of stock options are as follows:

a) Number of stock options

	1st subscription rights to shares	2nd subscription rights to shares	3rd subscription rights to shares	4th subscription rights to shares	5th subscription rights to shares	6th subscription rights to shares	7th subscription rights to shares	8th subscription rights to shares	9th subscription rights to shares
Share subscription rights which are not yet vested									
Outstanding as of December 31, 2019	—	—	—	—	—	—	—	—	73,700
Granted	—	—	—	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—	—	—	14,600
Vested	—	—	—	—	—	—	—	—	59,100
Unvested balance	—	—	—	—	—	—	—	—	—
Share subscription rights which have already been vested									
Outstanding as of December 31, 2019	36,400	600	115,600	16,600	19,600	150,400	51,400	21,800	—
Vested	—	—	—	—	—	—	—	—	59,100
Exercised	17,200	—	31,600	6,000	7,800	37,000	19,600	8,000	20,300
Forfeited	—	—	—	—	—	—	—	—	—
Unexercised balance	19,200	600	84,000	10,600	11,800	113,400	31,800	13,800	38,800

Note: The Company consolidated its common shares at a rate of one share for every five shares on October 1, 2016.
The number of shares is calculated in consideration of the consolidation.

a) Price information

	1st subscription rights to shares	2nd subscription rights to shares	3rd subscription rights to shares	4th subscription rights to shares	5th subscription rights to shares	6th subscription rights to shares	7th subscription rights to shares	8th subscription rights to shares	9th subscription rights to shares
Exercise price (yen)	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1	¥1
Weighted average exercise price (yen)	2,601	—	2,693	3,052	2,603	2,898	2,908	2,763	2,643
Fair value per stock at the granted date (yen)	1,705	1,715	1,225	1,440	2,600	3,065	1,995	2,748	3,453

Note: The Company consolidated its common shares at a rate of one share for every five shares on October 1, 2016.
The exercise price and fair value are calculated in consideration of the consolidation.

3. Method of estimating the fair value of stock options

No items to be reported.

4. Method of estimating the number of vested stock option rights

Basically, because reasonable estimation of the number of rights to be forfeited in the future is difficult, the method which reflects only the actual number of rights forfeited is used.

20. Income Taxes

1. Significant components of deferred tax assets and liabilities are as follows:

As of December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Deferred tax assets:			
Provision for bonuses	**¥1,294**	¥1,133	**$12,502**
Loss recognized on a percentage-of-completion basis	**514**	514	**4,966**
Accrued enterprise tax	**367**	329	**3,546**
Net defined benefit liability	**2,557**	3,114	**24,705**
Provision for directors' retirement benefits	**35**	31	**338**
Unrealized gains on fixed assets	**265**	266	**2,560**
Tax loss carry forward (Note)	**2,438**	3,614	**23,556**
Valuation loss on investment securities	**442**	651	**4,271**
Loss on write-down of inventories	**4,758**	2,399	**45,971**
Provision for warranties for completed construction	**3,707**	5,494	**35,816**
Allowance for doubtful accounts	**1,930**	1,951	**18,647**
Others	**10,539**	9,270	**101,826**
Subtotal	**¥28,851**	¥28,772	**$278,754**
Valuation allowance for tax loss carry forward (Note)	**(1,928)**	(3,506)	**(18,628)**
Valuation allowance for total of tax deductible temporary differences	**(10,767)**	(10,473)	**(104,029)**
Valuation allowance	**¥(12,695)**	¥(13,980)	**$(122,657)**
Total deferred tax assets	**¥16,156**	¥14,791	**$156,097**
Deferred tax liabilities:			
Retained earnings of subsidiaries	**(3,850)**	(3,874)	**(37,198)**
Net unrealized gains (losses) on investment securities	**(3)**	(25)	**(29)**
Others	**(1,695)**	(1,921)	**(16,377)**
Total deferred tax liabilities	**¥(5,549)**	¥(5,821)	**$(53,614)**
Net deferred tax assets	**¥10,606**	¥8,970	**$102,473**

Note：Breakdowns of tax loss carry forward and valuation allowance by expiry date as of December 31, 2020 and 2019 are as follows:

	Millions of yen						
As of December 31, 2020	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years	Total
Tax loss carry forward (a)	**434**	**299**	**370**	**137**	**122**	**1,073**	**¥2,438**
Valuation allowance	**(143)**	**(165)**	**(360)**	**(114)**	**(106)**	**(1,037)**	**¥(1,928)**
Deferred tax assets	**291**	**133**	**9**	**23**	**16**	**36**	**(b) ¥510**

	Thousands of U.S. dollars						
As of December 31, 2020	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years	Total
Tax loss carry forward (a)	**4,193**	**2,889**	**3,575**	**1,324**	**1,179**	**10,367**	**$23,556**
Valuation allowance	**(1,382)**	**(1,594)**	**(3,478)**	**(1,101)**	**(1,024)**	**(10,019)**	**$(18,628)**
Deferred tax assets	**2,812**	**1,285**	**87**	**222**	**155**	**348**	**(b) $4,928**

(a)The amount is determined by multiplying the corresponding tax loss carry forward by the effective statutory tax rate.

(b)The tax loss carry forward is determined to be recoverable in part as future taxable income is anticipated.

	Millions of yen						
As of December 31, 2019	Within 1 year	Over 1 year and within 2 years	Over 2 years and within 3 years	Over 3 years and within 4 years	Over 4 years and within 5 years	Over 5 years	Total
Tax loss carry forward (a)	1,239	386	304	330	143	1,210	¥3,614
Valuation allowance	(1,239)	(384)	(304)	(314)	(143)	(1,120)	¥(3,506)
Deferred tax assets	—	1	0	15	0	90	(b) ¥108

(a)The amount is determined by multiplying the corresponding tax loss carry forward by the effective statutory tax rate.

(b)The tax loss carry forward is determined to be recoverable in part as future taxable income is anticipated.

2. A summary of the major differences between the Japanese statutory tax rate and the Group's effective tax rate is as follows:

For the fiscal years ended December 31, 2020 and 2019		
	2020/12	2019/12
Statutory tax rate	**30.6%**	30.6%
Entertainment expenses and other expenses not deductible	**0.7**	0.7
Per capital equalization inhabitants' taxes	**1.8**	1.4
Dividends received not taxable	**(28.6)**	(19.3)
Dividends received effected by elimination from consolidation	**27.6**	18.4
Valuation allowance	**(1.4)**	1.9
Tax rate differences with overseas consolidated subsidiaries	**(6.2)**	(5.9)
Others	**2.9**	0.7
Effective tax rate as shown in statements of income	**27.4%**	28.6%

21. Revenue Recognition

For contracts with customers, the Group recognizes revenue based on the following five-step approach.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies performance obligations

The Group is engaged in manufacturing, sales, construction, maintenance, and other activities in its Fluid Machinery & Systems (FMS) Business, which focuses on rotary machinery such as pumps and compressors; the Environmental Plants (EP) Business, which engages in the design, construction, operation, and maintenance of municipal solid waste incineration plants and other waste treatment facilities; and the Precision Machinery (PM) Business, which manufactures equipment and devices related to semiconductor manufacturing equipment.

(1) Fluid Machinery & Systems Business

Engages in manufacturing, sales, construction and maintenance services related to custom and standard pumps, compressors, turbines, chillers, cooling towers and related systems, blowers, and control equipment for electricity, telecommunications, and energy.

With respect to the manufacture and sale of products in the FMS Business, based on a comprehensive assessment of indicators of the transfer of control, such as legal title of the product, physical possession of the product, transfer of significant risks and rewards of ownership of the product to a customer, and the right to receive payment from a customer, the Group determines that control over the products is transferred to the customer and the performance obligation is satisfied primarily at the time of delivery or inspection of the products.

For construction and maintenance contracts in the FMS Business, the Group transfers control of a product or service over time and, therefore, satisfies a performance obligation over a certain period of time and recognizes revenue over time, if one of the following criteria is met.

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, sales are recognized over the construction period based on the progress rate for fulfillment of the performance obligation estimated as of the end of the reporting period. The progress rate is calculated based on the ratio of the actual cost to the estimated total cost (input method). If the outcome of the performance obligation cannot be reasonably measured, but the Group expects to recover the cost of satisfying the performance obligation, the Group faithfully depicts its performance by recognizing sales only to the extent of the cost incurred.

(2) Environmental Plants Business

Engages in manufacturing, sales, construction, and maintenance services related to waste treatment plants.

For the manufacture and sale of Environmental Plants products, based on a comprehensive assessment of indicators of the transfer of control, such as legal title of the product, physical possession of the product, transfer of significant risks and rewards of ownership of the product to a customer, and the right to receive payment from a customer, the Group determines that control over the products is transferred to the customer and the performance obligation is satisfied primarily at the time of delivery or inspection of the products.

For construction and maintenance contracts in the EP business, the Group transfers control of a product or service over time and, therefore, satisfies a performance obligation over a certain period of time and recognizes revenue over time, if one of the following criteria is met.

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, sales are recognized over the

construction period based on the progress rate for fulfillment of the performance obligation estimated as of the end of the reporting period. The progress rate is calculated based on the ratio of the actual cost to the estimated total cost (input method). If the outcome of the performance obligation cannot be reasonably measured, but the Group expects to recover the cost of satisfying the performance obligation, the Group faithfully depicts its performance by recognizing sales only to the extent of the cost incurred.

(3) Precision Machinery Business

Engages in manufacturing, sales, and maintenance services related to dry vacuum pumps and CMP systems.

For the manufacture and sale of products in the PM Business, based on a comprehensive assessment of indicators of the transfer of control, such as legal title of the product, physical possession of the product, transfer of significant risks and rewards of ownership of the product to a customer, and the right to receive payment from a customer, the Group determines that control over the products is transferred to the customer and the performance obligation is satisfied primarily at the time of delivery or inspection of the products.

Sales are measured at the amount of consideration promised in the contract with a customer, by deducting discounts, late fees, and other charges. For variable consideration, including variable discounts, the amount of consideration is estimated using all reasonably available information, and sales are recognized only to the extent that it is highly probable that a significant reversal will not occur. The Group does not adjust the interest rate component of the consideration because it expects that, at the inception of the contract, the period between the time when the goods or services are transferred to the customer and the time when the customer pays the consideration is one year or less.

22. Segment Information

For the fiscal years ended December 31, 2020 and 2019

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.

The Group is conducting its business operations through three in-house companies: the Fluid Machinery & Systems Company, the Environmental Engineering Company and the Precision Machinery Company. Therefore, the Group is composed of product and service segments based along the lines of the in-house companies, and its three reportable segments are Fluid Machinery & Systems, Environmental Plants, and Precision Machinery.

The Group operates in the following three business segments:

Segment	Principal Products	Contents
Fluid Machinery & Systems	Pumps, compressors, turbines, freezer chillers, blowers, fans and others	Manufacture, sales, operation and maintenance (O&M) services and others
Environmental Plants	Municipal waste processing plants, industrial waste incineration plants, water treatments plants and others	Engineering, construction, O&M services and others
Precision Machinery	Dry vacuum pumps, CMP equipment, plating equipment, exhaust-gas treatment equipment and others	Manufacture, sales and maintenance and others

2. Calculation method used for sales, income, assets, and other items for each reportable segment

The accounting method used for reportable business segments is the same as the method stated in "Notes to the Consolidated Financial Statements."

Profits from reportable segments are figures based on operating income.

Intersegment sales are recorded at the same prices used in transactions with external customers.

Changes of calculation method used for income and losses for each reportable segment

As stated in "(Changes in Accounting Policies)," the accounting method for revenue recognition has been changed from the beginning of the fiscal year ended December 31, 2020, and accordingly the measuring method for profit or loss in the business segment has been changed in the same way.

Due to this change, when compared to the previous method of calculation, sales in the FMS Business for the fiscal year ended December 31, 2020 increased by ¥1,555 million ($15,024 thousand) and segment income increased by ¥688 million ($6,647 thousand). In the EP Business, sales decreased by ¥3 million ($29 thousand) and segment income increased by ¥254 million ($2,454 thousand). In the PM Business, sales increased by ¥3,252 million ($31,420 thousand) and segment income increased by ¥1,483 million ($14,329 thousand).

3. Information about sales, income and losses, assets, and other items for each reportable segment for the fiscal years ended December 31, 2020 and 2019 is as follows:

	Millions of yen							
	Reportable segments							
For the fiscal year ended December 31, 2020	Fluid Machinery & Systems	Environmental Plants	Precision Machinery	Total	Others (Note 1)	Total	Adjustments (Notes 2 and 3)	Consolidated (Note 4)
Sales to external customers	¥313,581	¥67,536	¥141,119	¥522,238	¥1,489	¥523,727	¥—	¥523,727
Intersegment sales and transfers	762	10	3	775	2,595	3,371	(3,371)	—
Total	¥314,343	¥67,547	¥141,122	¥523,014	¥4,084	¥527,098	¥(3,371)	¥523,727
Segment income(losses)	¥19,789	¥7,146	¥11,448	¥38,385	¥(459)	¥37,925	¥(46)	¥37,879
Segment assets	¥315,858	¥53,319	¥150,574	¥519,753	¥24,136	¥543,889	¥77,688	¥621,578
Others:								
Depreciation expense	¥8,225	¥606	¥5,527	¥14,358	¥1,623	¥15,981	¥(18)	¥15,963
Amortization of goodwill	279	—	—	279	—	279	—	279
Investments for companies applying equity method	—	7,695	—	7,695	—	7,695	—	7,695
Increase in tangible and intangible assets	12,567	880	16,470	29,918	2,438	32,357	(62)	32,295

For the fiscal year ended December 31, 2020	Thousands of U.S. dollars							
	Reportable segments							
	Fluid Machinery & Systems	Environmental Plants	Precision Machinery	Total	Others (Note 1)	Total	Adjustments (Notes 2 and 3)	Consolidated (Note 4)
Sales to external customers	**$3,029,768**	**$652,522**	**$1,363,469**	**$5,045,778**	**$14,386**	**$5,060,164**	**$—**	**$5,060,164**
Intersegment sales and transfers	**7,362**	**97**	**29**	**7,488**	**25,072**	**32,570**	**(32,570)**	**—**
Total	**$3,037,130**	**$652,628**	**$1,363,498**	**$5,053,275**	**$39,459**	**$5,092,734**	**$(32,570)**	**$5,060,164**
Segment income (losses)	**$191,198**	**$69,043**	**$110,609**	**$370,870**	**$(4,435)**	**$366,425**	**$(444)**	**$365,981**
Segment assets	**$3,051,768**	**$515,159**	**$1,454,821**	**$5,021,768**	**$233,198**	**$5,254,966**	**$750,609**	**$6,005,585**
Others:								
Depreciation expense	**$79,469**	**$5,855**	**$53,401**	**$138,725**	**$15,681**	**$154,406**	**$(174)**	**$154,232**
Amortization of goodwill	**2,696**	**—**	**—**	**2,696**	**—**	**2,696**	**—**	**2,696**
Investments for companies applying equity method	**—**	**74,348**	**—**	**74,348**	**—**	**74,348**	**—**	**74,348**
Increase in tangible and intangible assets	**121,420**	**8,502**	**159,130**	**289,063**	**23,556**	**312,628**	**(599)**	**312,029**

Notes:1. The "Others" item in the table above is the business segment for operations that are not included among reportable segments. It contains business support services and other activities.

2. The "Adjustments" item is as follows:

(1) Segment income (losses) shows eliminations among intersegment sales and transfers.

(2) The total value of the adjustment of segment assets for the Company was total assets of the Group amounting to ¥80,209 million ($774,966 thousand), and intersegment eliminations amounting to ¥(2,520) million ($(24,348) thousand). The main total assets of the Group are cash and cash equivalents, a part of investment securities, deferred tax assets and others.

3. The adjustments of "Depreciation expense" and "Increase in tangible and intangible assets" under "Others" are due to the elimination of intersegment transactions.

4. Segment income (losses) and segment assets have been reconciled with operating income in the consolidated statement of income and total assets in the consolidated balance sheet, respectively.

For the fiscal year ended December 31, 2019	Millions of yen							
	Reportable segments							
	Fluid Machinery & Systems	Environmental Plants	Precision Machinery	Total	Others (Note 1)	Total	Adjustments (Notes 2 and 3)	Consolidated (Note 4)
Sales to external customers	**¥323,139**	**¥69,505**	**¥128,255**	**¥520,900**	**¥1,524**	**¥522,424**	**¥—**	**¥522,424**
Intersegment sales and transfers	**693**	**7**	**0**	**701**	**2,646**	**3,347**	**(3,347)**	**—**
Total	**¥323,832**	**¥69,513**	**¥128,255**	**¥521,601**	**¥4,170**	**¥525,772**	**¥(3,347)**	**¥522,424**
Segment income (losses)	**¥17,274**	**¥7,486**	**¥10,371**	**¥35,131**	**¥145**	**¥35,277**	**¥21**	**¥35,298**
Segment assets	**¥313,032**	**¥52,418**	**¥141,909**	**¥507,359**	**¥27,257**	**¥534,616**	**¥60,622**	**¥595,239**
Others:								
Depreciation expense	**¥8,375**	**¥555**	**¥4,571**	**¥13,502**	**¥1,641**	**¥15,144**	**¥(11)**	**¥15,132**
Amortization of goodwill	**325**	**—**	**—**	**325**	**—**	**325**	**—**	**325**
Investments for companies applying equity method	**—**	**6,975**	**—**	**6,975**	**—**	**6,975**	**—**	**6,975**
Increase in tangible and intangible assets	**10,906**	**989**	**21,837**	**33,734**	**639**	**34,373**	**(4)**	**34,369**

Notes:1. The "Others" item in the table above is the business segment for operations that are not included among reportable segments. It contains business support services and other activities.

2. The "Adjustments" item is as follows:

(1) Segment income (losses) shows eliminations among intersegment sales and transfers.

(2) The total value of the adjustment of segment assets for the Company was total assets of the Group amounting to ¥63,422 million, and intersegment eliminations amounting to ¥(2,799) million. The main total assets of the Group are cash and cash equivalents, a part of investment securities, deferred tax assets and others.

3. The adjustments of "Depreciation expense" and "Increase in tangible and intangible assets" under "Others" are due to the elimination of intersegment transactions.

4. Segment income (losses) and segment assets have been reconciled with operating income in the consolidated statement of income and total assets in the consolidated balance sheet, respectively

Reference information

1. Geographical segment information for the fiscal years ended December 31, 2020 and 2019 is as follows:

a. Net sales

For the fiscal years ended December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Japan	**¥235,868**	¥233,353	**$2,278,918**
China	**80,236**	80,611	**775,227**
Other Asia	**101,164**	87,889	**977,430**
North America	**40,741**	55,343	**393,633**
Others	**65,715**	65,226	**634,928**
Total	**¥523,727**	¥522,424	**$5,060,164**

Note: Net sales information above is based on the location of the customer.

b. Property, plant and equipment

As of December 31, 2020 and 2019	Millions of yen		Thousands of U.S. dollars
	2020/12	2019/12	2020/12
Japan	**¥95,636**	¥87,545	**$924,019**
Asia	**14,209**	13,804	**137,285**
United States	**21,112**	18,366	**203,981**
Others	**5,244**	5,182	**50,667**
Total	**¥136,202**	¥124,898	**$1,315,961**

Information about impairment loss on fixed assets by reportable segment for the fiscal years ended December 31, 2020 and 2019 is as follows:

	Millions of yen						
	Reportable segments						
For the fiscal year ended December 31, 2020	Fluid Machinery & Systems	Environmental Plants	Precision Machinery	Total	Others	Adjustments	Consolidated
Impairment loss	**¥148**	**¥—**	**¥69**	**¥218**	**¥26**	**¥—**	**¥244**

Note: The "Others" category represents amounts related to business segments that are not included in reportable segments.

	Thousands of U.S. dollars						
	Reportable segments						
For the fiscal year ended December 31, 2020	Fluid Machinery & Systems	Environmental Plants	Precision Machinery	Total	Others	Adjustments	Consolidated
Impairment loss	**$1,430**	**$—**	**$667**	**$2,106**	**$251**	**$—**	**$2,357**

	Millions of yen						
	Reportable segments						
For the fiscal year ended December 31, 2019	Fluid Machinery & Systems	Environmental Plants	Precision Machinery	Total	Others	Adjustments	Consolidated
Impairment loss	¥330	¥—	¥25	¥356	¥756	¥—	¥1,112

Note: The "Others" category represents amounts related to business segments that are not included in reportable segments.

Information about amortization of goodwill and year-end balances by reportable segment for the fiscal years ended December 31, 2020 and 2019 is as follows:

	Millions of yen						
	Reportable segments						
For the fiscal year ended December 31, 2020	Fluid Machinery & Systems	Environmental Plants	Precision Machinery	Total	Others	Adjustments	Consolidated
Amortization of goodwill	**¥279**	**¥—**	**¥—**	**¥279**	**¥—**	**¥—**	**¥279**
Balance as of December 31, 2020	**¥369**	**¥—**	**¥—**	**¥369**	**¥—**	**¥—**	**¥369**

	Thousands of U.S. dollars						
	Reportable segments						
For the fiscal year ended December 31, 2020	Fluid Machinery & Systems	Environmental Plants	Precision Machinery	Total	Others	Adjustments	Consolidated
Amortization of goodwill	**$2,696**	**$—**	**$—**	**$2,696**	**$—**	**$—**	**$2,696**
Balance as of December 31, 2020	**$3,565**	**$—**	**$—**	**$3,565**	**$—**	**$—**	**$3,565**

	Millions of yen						
	Reportable segments						
For the fiscal year ended December 31, 2019	Fluid Machinery & Systems	Environmental Plants	Precision Machinery	Total	Others	Adjustments	Consolidated
Amortization of goodwill	¥325	¥—	¥—	¥325	¥—	¥—	¥325
Balance as of December 31, 2019	¥774	¥—	¥—	¥774	¥—	¥—	¥774

23. Significant Subsequent Events

No items to be reported.

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Independent Auditor's Report

The Board of Directors
EBARA CORPORATION

Opinion

We have audited the accompanying consolidated financial statements of EBARA CORPORATION and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at December 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 3 to the consolidated financial statements regarding "Application of Accounting Standard for Revenue Recognition" in which it states that the Group has adopted "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30, March 30, 2018) from the beginning of the fiscal year ended December 31, 2020. Our opinion is not qualified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

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Revenue recognition in construction contracts	
Description of Key Audit Matter	Auditor's Response
The Group is engaged in manufacturing, sales, construction, and maintenance for the following segments: - Fluid Machinery & Systems segment, which specializes in rotary machinery, such as pumps and compressors; - Environmental Plant segment, which includes municipal waste incinerators and other environmental plants; and - Precision Machinery segment, which manufactures machinery and equipment for semiconductor manufacturing equipment. As described in Note 3. "Application of Accounting Standard for Revenue Recognition" (1. Performance Obligation to Be Satisfied Over a Period of Time) under "Accounting Changes" and Note 21. "Revenue Recognition," for construction and maintenance contracts involving pumps, compressors and turbines, and chillers business in the Fluid Machinery & Systems segment and the Environmental Plant segment, the Group recognizes revenue as the related performance obligations are satisfied over a period of time to reflect the transfer of control of the product or services to the customer. The Group estimates the percentage of completion using actual costs incurred to estimated total costs (input method) when the progress of satisfying the corresponding performance obligations can be reliably measured. Revenue recognition for such contracts and maintenance contracts or similar contracts is reliant on estimates of total cost. These contracts include those whose contractual values are significant, those with long construction periods, or those with highly customized specifications. Estimating the total cost of highly customized contracts is complex, and it is difficult to obtain objective measurements. In addition, it requires the project control manager, who possesses specialized knowledge and experience with these types of projects, to make certain assumptions and judgments. For contracts with long construction periods involving projects where the construction period may be subject to contractual changes during the course of the project, construction delays due to bad weather, or fluctuations in unit costs of construction materials and labor or other inputs, making timely and appropriate adjustments to estimated total costs is a complex process.	We performed the following audit procedures to evaluate management's estimates of the total cost of construction contracts and maintenance or similar contracts used for revenue recognition. (1) Assessment of internal control We evaluated the design and operational effectiveness of internal controls over estimates of total costs for the Group as follows. - The execution budget, which is used as the basis for estimating total costs, is prepared by project personnel with relevant field experience and deemed to be reliable with the necessary approvals. The execution budget is prepared and authorized in order to perform cost management for each project. - The system developed by the Group to revise estimates of total costs in a timely manner considering the status of the construction projects, actual costs incurred, or specification changes as instructed by the customer. - The system for the effective and timely monitoring under the project management department, which is responsible for profit or loss management and monitoring the percentage of completion of each project from the perspective of reliability of the total costs. (2) Assessing the reasonableness of estimates of total costs Considering the financial materiality of the contract amount, the contract terms and conditions, and the duration of the construction activity, those projects for which estimates of total costs were considered highly uncertain were selected and the following procedures were performed. - We validated the estimates of total costs by analyzing the contractual documentation, the execution budget, and process control documents to ensure, firstly, whether the estimates of total costs are consistent with the contract details; secondly, whether they are calculated appropriately by aggregating the cost elements, and lastly, whether the execution budget excludes any unusual adjustment items to prepare solely for future uncertainty.

Therefore, such estimated total costs can be considered highly uncertain, and management judgment significantly affects the estimation. As described above, the audit of the estimates of total costs, which serves as a basis for revenue recognition of construction and maintenance contracts, requires consideration of various estimation assumptions depending on the project, and therefore, we identified this as a key audit matter.	- In the event that total costs differed from normal historical trends over certain threshold amounts, we inquired with project managers whether such differences are the result of actual circumstances affecting the projects. - We inquired with management and the project manager about the status of projects and the determination as to whether or not the total cost of the project should be adjusted and assessed their responses in light of the process chart and historical trends related to costs incurred. We also identified significant assumptions used in the calculation of the estimates of total costs, which related to technical specifications, construction schedules and other details, and assessed the management judgments regarding the impact of uncertainty in estimation assumptions. - We also conducted construction site visits, observed the actual manufacturing of products for certain projects, and validated whether the progress of the projects was consistent with the total cost estimates and the estimated percentage of progress. - We assessed the process used to estimate total costs by comparing the original estimates of total costs with the total actual costs incurred or the latest estimates of the total costs.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 5 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

March 29, 2021

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