Materials for the 158th Ordinary General Meeting of Shareholders

Items among the Electronic Provision Items that are excluded pursuant to laws and regulations and the Company's Articles of Incorporation from paper-based materials delivered in response to a request for delivery of such materials

158th Period (From January 1, 2022 to December 31, 2022)

EBARA CORPORATION

In accordance with the provisions of laws and regulations and Article 15, paragraph 2 of the Company's Articles of Incorporation, the above items are excluded from the materials in paper-based format delivered to shareholders who have made a request for delivery of such materials.

Consolidated Statement of Financial Position

December 31, 2022

(Millions of yen)

Assets		Liabilities	
Account	**Amount**	**Account**	**Amount**
Current assets	**580,694**	**Current liabilities**	**369,078**
Cash and cash equivalents	116,137	Trade and other payables	195,391
Trade and other receivables	151,665	Contract liabilities	63,168
Contract assets	100,420	Bonds, borrowings and lease obligations	46,772
Inventories	181,337	Income taxes payable	6,140
Income taxes receivable	1,137	Provisions	12,760
Other financial assets	3,540	Other financial liabilities	432
Other current assets	26,456	Other current liabilities	44,411
Non-current assets	**247,354**	**Non-current liabilities**	**89,245**
Property, plant and equipment	165,715	Bonds, borrowings and lease obligations	72,560
Goodwill and intangible assets	43,333	Retirement benefit liability	8,380
Investments accounted for using equity method	7,153	Provisions	2,647
Deferred tax assets	13,720	Deferred tax liabilities	2,435
Other financial assets	6,783	Other financial liabilities	144
Other non-current assets	10,648	Other non-current liabilities	3,076
		Total liabilities	**458,323**
		Equity	
		Share capital	79,804
		Capital surplus	76,806
		Retained earnings	184,995
		Treasury shares	(294)
		Other components of equity	18,655
		Total equity attributable to owners of parent	**359,966**
		Non-controlling interests	9,758
		Total equity	**369,725**
Total assets	**828,049**	**Total liabilities and equity**	**828,049**

<u>Consolidated Statement of Profit or Loss</u>

From January 1, 2022
to December 31, 2022

(Millions of yen)

Account	Amount
Revenue	**680,870**
Cost of sales	**469,694**
Gross profit	**211,175**
Selling, general and administrative expenses	137,784
Other income	1,107
Other expenses	3,925
Operating profit	**70,572**
Finance income	957
Finance costs	2,762
Share of profit (loss) of investments accounted for using equity method	714
Profit before tax	**69,481**
Income tax expense	16,775
Profit	**52,705**
Profit attributable to:	
Owners of parent	50,488
Non-controlling interests	2,217

<u>**Consolidated Statement of Changes in Equity**</u>
From January 1, 2022
to December 31, 2022

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	**Capital surplus**	**Retained earnings**	**Treasury shares**	**Exchange differences on translation of foreign operations**	**Net change in financial assets measured at fair value through other comprehensive income**
As of January 1, 2022	**79,643**	**76,566**	**171,720**	**(20,189)**	**4,179**	**351**
Hyperinflation adjustment	**–**	**–**	**(539)**	**–**	**–**	**–**
Adjusted beginning balance	**79,643**	**76,566**	**171,180**	**(20,189)**	**4,179**	**351**
Changes during the period						
Comprehensive income						
Profit	–	–	50,488	–	–	–
Other comprehensive income	–	–	–	–	14,134	(46)
Total comprehensive income	**–**	**–**	**50,488**	**–**	**14,134**	**(46)**
Transactions with owners						
Dividends	–	–	(18,216)	–	–	–
Purchase of treasury shares	–	–	–	(8)	–	–
Disposal of treasury shares	–	0	–	0	–	–
Cancellation of treasury shares	–	(0)	(19,902)	19,903	–	–
Share-based payment transactions	160	245	–	–	–	–
Change in scope of consolidation	–	–	–	–	–	–
Acquisition of non-controlling interests	–	(4)	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	1,445	–	–	57
Total transactions with owners	**160**	**240**	**(36,674)**	**19,894**	**–**	**57**
As of December 31, 2022	**79,804**	**76,806**	**184,995**	**(294)**	**18,314**	**362**

(Millions of yen)

	Equity attributable to owners of parent				Non-controlling interests	Total
	Other components of equity			Total equity attributable to owners of parent		
	Cash flow hedges	Remeasurements of defined benefit plans	Total			
As of January 1, 2022	**38**	**–**	**4,569**	**312,310**	**9,345**	**321,655**
Hyperinflation adjustment	**–**	**–**	**–**	**(539)**	**–**	**(539)**
Adjusted beginning balance	**38**	**–**	**4,569**	**311,770**	**9,345**	**321,116**
Changes during the period						
Comprehensive income						
Profit	–	–	–	50,488	2,217	52,705
Other comprehensive income	(59)	1,502	15,531	15,531	365	15,896
Total comprehensive income	**(59)**	**1,502**	**15,531**	**66,019**	**2,582**	**68,602**
Transactions with owners						
Dividends	–	–	–	(18,216)	(2,167)	(20,383)
Purchase of treasury shares	–	–	–	(8)	–	(8)
Disposal of treasury shares	–	–	–	0	–	0
Cancellation of treasury shares	–	–	–	–	–	–
Share-based payment transactions	–	–	–	406	–	406
Change in scope of consolidation	–	–	–	–	0	0
Acquisition of non-controlling interests	–	–	–	(4)	(2)	(7)
Transfer from other components of equity to retained earnings	–	(1,502)	(1,445)	–	–	–
Total transactions with owners	**–**	**(1,502)**	**(1,445)**	**(17,823)**	**(2,169)**	**(19,993)**
As of December 31, 2022	**(21)**	**–**	**18,655**	**359,966**	**9,758**	**369,725**

Notes to the Consolidated Financial Statements

Significant Accounting Principles

1. Standards for the preparation of the consolidated financial statements
   The consolidated financial statements of the Company and its subsidiaries (the "Group") have been prepared based on International Financial Reporting Standards (IFRS) pursuant to Article 120, Paragraph 1 of the Regulations on Corporate Accounting of Japan. In accordance with the latter clause of the said paragraph, some of the disclosure items required by IFRS have been omitted from these consolidated financial statements.

2. Scope of consolidation
   (1) Number of consolidated subsidiaries and names of significant consolidated subsidiaries

Number of consolidated subsidiaries	112
Names of significant consolidated subsidiaries	Elliott Ebara Turbomachinery Corporation EBARA REFRIGERATION EQUIPMENT & SYSTEMS CO., LTD. EBARA DENSAN LTD. EBARA FAN & BLOWER CO., LTD. Ebara Environmental Plant Co., Ltd. EBARA FIELD TECH. CORPORATION EBARA AGENCY CO., LTD. Hayward Gordon Holdings, L.P. EBARA BOMBAS AMÉRICA DO SUL LTDA. Ebara Machinery (China) Co., Ltd. EBARA MACHINERY ZIBO CO., LTD. EBARA GREAT PUMPS CO., LTD. Ebara Engineering Singapore Pte. Ltd. Vansan Makina Sanayi ve Ticaret A.Ş. Ebara Pumps Europe S.p.A. Elliot Company Elliott Ebara Singapore Pte. Ltd. EBARA REFRIGERATION EQUIPMENT & SYSTEMS (CHINA) CO., LTD. EBARA QINGDAO CO., LTD. Ebara Technologies Incorporated SHANGHAI EBARA PRECISION MACHINERY CO., LTD. Ebara Precision Machinery Korea Incorporated Ebara Precision Machinery Taiwan Incorporated Ebara Precision Machinery Europe GmbH

   (2) Change in scope of consolidation
   Hayward Gordon Holdings, L.P. and its six subsidiaries have been newly included in the scope of consolidation due to the acquisition of the company. In addition, newly established Ebara Pumps Canada Corporation and two other companies have been included in the scope of consolidation.
   Ciğli Su Teknolojileri A.Ş., which was a consolidated subsidiary, ceased to exist through an absorption-type merger in which consolidated subsidiary Vansan Makina Sanayi ve Ticaret A.Ş. became the surviving entity.

   (3) Names of significant non-consolidated subsidiaries
   None

3. Equity method
   (1) Number and name of non-consolidated subsidiaries and affiliates accounted for by equity method
   Number of non-consolidated subsidiaries accounted for by equity method
   None
   Number of affiliates accounted for by equity method 1
   Swing Corporation

   (2) Names of major non-consolidated subsidiaries and affiliates not accounted for by equity method
   Non-consolidated subsidiaries not accounted for by equity method
   None

Non-consolidated affiliates not accounted for by equity method
Ebara Philippines Landholdings, Inc.
Reason for not applying the equity method
The non-consolidated affiliate is not accounted for by equity method owing to insignificance in volume of profit or loss and retained earnings.

(3) Fiscal year-end of affiliates accounted for by equity method
As the fiscal year-end of the equity method affiliate is on March 31, the consolidated financial statements are prepared using its non-consolidated financial statements based on a provisional settlement of accounts implemented on the consolidated fiscal year-end.

4. Fiscal year-end of consolidated subsidiaries
Among the consolidated subsidiaries, the fiscal year-end of EBARA MACHINERY INDIA PRIVATE LIMITED and 21 other companies is March 31.
The consolidated financial statements are prepared using their non-consolidated financial statements based on a provisional settlement of accounts implemented on the consolidated fiscal year-end.

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

2) Financial statements of foreign operations
Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisitions, are translated into the presentation currency at exchange rates as of the end of the reporting period. Revenue and costs of foreign operations are translated at the average rate for the reporting period, except for when exchange rates fluctuate significantly. Exchange differences on translation of foreign currency are recognized in other comprehensive income and accumulated in translation adjustments except for the component allocated to non-controlling interests. When all or part of foreign operations are disposed of and control, significant influence or joint control is lost, the cumulative amount of foreign currency translation adjustments related to such foreign operations are reclassified to profit or loss as part of a gain or loss on disposal. When the Group partly disposes of equity in a subsidiary but retains control, part of the cumulative amount is redistributed to non-controlling interests as appropriate. When the Group only partly disposes of an affiliate or a joint venture while retaining control, part of the cumulative amount is reclassified to profit or loss as appropriate. Revenue and costs of subsidiaries in hyperinflationary economies are translated into the presentation currency at exchange rates as of the closing dates by applying the hyperinflation accounting. Details of the hyperinflation accounting are as described in "(16) Hyperinflation adjustment."

(2) Financial instruments
1) Non-derivative financial assets
The Group initially recognizes trade receivables on the date when they arise. The Group initially recognizes other financial assets on the transaction date when the Group becomes a party to the contractual provisions of these financial instruments.

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

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

i) Financial assets measured at amortized cost
Financial assets which satisfy both of the following conditions are classified as financial assets measured at amortized cost:
- The objective of the entity's business model is to hold the financial asset to collect the contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

ii) Financial assets measured at fair value through profit or loss
Financial assets except for those measured at amortized cost are classified as financial assets measured at fair value.

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

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

iii) Financial instruments measured at fair value through other comprehensive income
Of debt instruments measured at fair value, those which satisfy both of the following conditions are classified as financial assets measured at fair value through other comprehensive income.
- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

2) Impairment of financial assets
The Group recognizes a provision for bad debts corresponding to expected credit losses on financial assets measured at amortized cost. The Group determines at the end of the reporting period whether or not credit risk has increased significantly since initial recognition. If the credit risk of a financial instrument has increased significantly since initial recognition, a provision for bad debts for such

financial assets is measured at the amount equal to lifetime expected credit losses. For all other financial instruments, expected credit losses are measured at an amount equal to the 12-month expected credit losses. Notwithstanding the above, the Group always measures the amount of provision for bad debts equal to lifetime expected credit losses for trade receivables, contract assets and lease receivables that do not contain a significant financing component.

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

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

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

i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes,
ii) time value of money, and
iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecast of future economic conditions.

3) Non-derivative financial liabilities

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

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

4) Derivatives and hedge accounting

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

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

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

i) Fair value hedges

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

ii) Cash flow hedges
The portion of changes in fair value of derivatives as a hedging instrument that is determined to be an effective hedge is recognized in other comprehensive income.

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

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

iii) Derivatives not designated as a hedge
Changes in fair value of such derivatives are recognized in profit or loss.

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

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

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

(5) Property, plant and equipment (excluding right-of-use assets):
1) Recognition and measurement
The Group adopts the cost model for the measurement of property, plant and equipment after recognition. It is presented at cost less any accumulated depreciation and accumulated impairment losses.

The cost of property, plant and equipment comprises any costs directly related to the acquisition, estimated costs for dismantling and removing the asset and restoring the site on which it is located, and borrowing costs attributable to a qualifying asset.

Of the expenditures incurred after the acquisition of property, plant and equipment, those for ordinary repairs and maintenance are expensed as incurred, whereas those for major replacements and improvements are capitalized only when the expenditure is expected to bring future economic benefits to the Group.

2) Depreciation
Property, plant and equipment excluding land and construction in progress are depreciated from the time when they are available for use on a straight-line basis over their respective estimated useful lives. The estimated useful lives of major property, plant and equipment are as follows:

Buildings and structures:	2 to 60 years
Machinery, equipment and vehicles:	2 to 38 years

The depreciation method, estimated useful lives and residual values are reviewed at the end of each reporting period, and revised as necessary.

(6) Goodwill and intangible assets

1) Goodwill

The Group accounts for business combinations using the acquisition method.

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

Goodwill is not amortized but tested for impairment at the same time every year and whenever there is any indication that it may be impaired. While impairment losses on goodwill are recognized in profit or loss, they are not reversed.

After initial recognition, goodwill is presented at cost less any accumulated impairment losses.

2) Intangible assets (excluding right-of-use assets):

Intangible assets acquired separately are measured at cost. The costs of intangible assets acquired through business combinations are measured at fair value on the date of the business combination.

The Group adopts the cost model for the measurement of intangible assets after recognition. It is presented at cost less any accumulated amortization and accumulated impairment losses.

Intangible assets with a finite useful life are amortized on a straight-line basis over their respective estimated useful lives. The estimated useful lives of major intangible assets are as follows:

Software for internal use	5 years

Intangible assets with an indefinite useful life and those not yet available for use are not amortized, but their estimated recoverable amount is estimated at the same time every year and whenever there is an indication of impairment.

The depreciation method and useful lives are reviewed at the end of each reporting period, and revised as necessary.

(7) Leases

(Lessee)

The Group recognizes right-of-use assets and lease obligations at the commencement date of the lease. The Group assesses whether the contract is, or contains, a lease based on the substance of the contract even if it does not have a legal form of a lease. The lease term is determined as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option; and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Right-of-use assets are initially measured at cost. The cost of the right-of-use asset comprises the amount of the initial measurement of the lease obligation adjusted for any lease payments made at or before the commencement date, less any lease incentives received, with the addition of any initial direct costs incurred by the lessee and an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the underlying asset or the site on which it is located.

After initial measurement, the right-of-use asset is depreciated on a straight-line basis from the commencement date to the earlier of the end of the useful life of the underlying asset or the end of the lease term. The estimated useful life of the right-of-use asset is determined in the same way as for property, plant and equipment held by the Company.

Lease obligations are initially measured at the present value of the lease payments that are not paid at the commencement date discounted at the interest rate implicit in the lease. If the interest rate implicit in the lease cannot be readily determined, the Group as lessee uses its incremental borrowing rate. Generally, the Group uses the incremental borrowing rate as a discount rate.

Lease obligations are remeasured if there is a change in future lease payments resulting from a change in an index or a rate, if there is a change in the amounts expected to be payable under a residual value guarantee, or if there is a change in the assessment on whether to exercise an option to purchase the underlying asset, to extend or terminate the lease. In these remeasurements of lease obligations, corresponding adjustments are made to the carrying amount of right-of-use assets, or recognized in profit or loss if the carrying amount of right-of-use assets is reduced to zero.

Right-of-use assets and lease obligations are presented in the consolidated statement of financial position under “Property, plant and equipment” and under “Bonds, borrowings and lease obligations,” respectively.

Short-term leases and leases of low-value assets
The Group has elected not to recognize right-of-use assets or lease obligations for short-term leases with a lease term of 12 months or less and leases of low-value assets. The Group expenses lease payments for these leases on a straight-line basis over the lease term.

(Lessor)
For operating lease transactions, the Group recognizes underlying assets in the consolidated statement of financial position, and recognizes lease payments received as profit in the consolidated statement of profit or loss on a straight-line basis over the lease term.

(8) Impairment of non-financial assets
The Group assesses whether there is any indication of impairment on property, plant and equipment as well as intangible assets.

If there is an indication of impairment, the Group measures the recoverable amount of each individual asset or cash-generating unit. Further, the Group does not amortize goodwill, intangible assets with indefinite useful lives, or intangible assets not yet available for use, but instead performs an impairment test at the same time every fiscal year and whenever there is an indication of impairment.

In performing the impairment test, the Group aggregates the assets to the smallest group of assets that generates cash inflows from continuing use that are largely independent of those from other assets or groups of assets. As the Group’s corporate assets do not generate independent cash inflows, if there is an indication that a corporate asset may be impaired, the recoverable amount is estimated for the cash-generating unit that includes the corporate asset.

The recoverable amount is determined at the higher of its value in use and its fair value less costs of disposal. The value in use is determined at the present value of the estimated future cash flows discounted at the pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

If the carrying amount of an individual asset or a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized in profit or loss, and the carrying amount of the asset is reduced to the recoverable amount. An impairment loss recognized for a cash-generating unit is first allocated to reduce the carrying amount of goodwill included in the cash-generating unit, and then the carrying amount of other assets in the cash-generating unit is reduced proportionately.

An impairment loss for goodwill is not reversed. An impairment loss for non-financial assets other than goodwill is reversed if there is an indication that the impairment loss may no longer exist or may have been reduced and the recoverable amount exceeds the carrying amount after write-down. In reversing the impairment loss, the difference between the recoverable amount and the carrying amount is recognized in profit or loss within a range that does not exceed the carrying amount had no impairment losses been recognized for the asset in prior periods.

(9) Employee benefits

1) Post-employment benefits

(Defined benefit plans)

The Group calculates defined benefit obligations by estimating the amount of future benefits which employees earned as consideration for services provided in the prior and current fiscal years, and then discounting the estimated amount to the present value. The discount rate is determined by reference to market yields at the end of the fiscal year on high quality corporate bonds with more or less the same maturity as the Group's defined benefit obligations.

Retirement benefit asset or retirement benefit liability is recognized at the present value of defined benefit obligations less the fair value of plan assets. Service cost and net interest on net defined benefit liability are recognized in profit or loss.

An increase or a decrease arising from remeasurements of defined benefit plans is recognized at a lump sum in other comprehensive income for the period it was incurred and immediately transferred to retained earnings. Past service cost is fully recognized in profit or loss as incurred.

(Defined contribution plans)

The Group expenses the amount of contributions payable to defined contribution plans when the employees provide relevant services.

2) Short-term employee benefits

The Group expenses short-term employee benefits at the time when the employees provide relevant services, without discounting them.

The Group recognizes bonuses and paid leave costs as a liability at an estimated amount payable under these plans if it has legal or constructive obligations and the amount can be reliably estimated.

3) Other long-term employee benefits

Net obligation to the Group's long-term employee benefit is the amount of future benefits which the employees earned as consideration for services provided in prior and current fiscal years. The amount is discounted to the present value. The difference arising from remeasurements is recognized in profit or loss in the period incurred.

(10) Share-based payment transactions

The Company adopts the following share-based payment plan as an incentive to its Directors, Executive Officers and employees.

(Stock option plan)

Stock options are calculated based on the fair value as of their dates of grant. They are expensed over the vesting period reflecting the final number of stock options expected to be vested, and the same amount is recognized as an increase in equity. The fair value of a stock option is computed using the Black-Scholes model.

(Restricted stock compensation and performance-linked stock compensation scheme)

The Company has introduced share-based compensation schemes that are equity-settled and cash-settled with the aim of raising the motivation for contributing to the sustainable growth of corporate value and sharing value with the shareholders.

For equity-settled share-based compensation, the consideration for services received is measured by reference to the fair value of shares of the Company to be granted. The amount of consideration for services determined is recognized as an expense in profit or loss with the corresponding amount recognized as an increase in equity.

For cash-settled share-based compensation, the fair value of payment is recognized as a liability, and the change in fair value of the liability is recognized in profit or loss over the period up to the vesting of an unconditional right to receive payments.

(11) Provisions

A provision is recognized when the Group has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

The amount of a provision is determined by discounting the estimated future cash flows to the present value at the pre-tax rate that reflects the time value of money and the risks specific to the liability. Any increase in the provision reflecting the effect of the passage of time is recognized as finance costs.

(12) Revenue

For contracts with customers, the Group recognizes revenue based on the following five-step approach.
Step 1: Identify the contract(s) with the customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies performance obligations

The Group is engaged in manufacturing, sales, construction, maintenance, and other activities in its Fluid Machinery & Systems (FMS) Business, which specializes in rotary machinery such as pumps and compressors; the Environmental Plants (EP) Business, which includes municipal waste incineration facilities and other environmental plants; and the Precision Machinery (PM) Business, which manufactures machinery and equipment for 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.

For 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 of the products is transferred to the customer and the performance obligation is satisfied primarily at the time of delivery or inspection of the products.

For construction and maintenance contracts in the FMS Business, the Group recognizes revenue primarily if one of the following criteria is met and as performance obligation is satisfied over time, because control of the product or service is transferred over time.

(i) The customer simultaneously receives and consumes the benefits provided by the Group's performance at the same time as the Group performs;
(ii) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or
(iii) the Group's performance does not create an asset with an alternative use to the Group, and the Group has an enforceable right to payment for performance completed to date.

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

2) Environmental Plants Business

The EP Business is engaged in manufacturing, sales, construction, and maintenance services related to waste treatment facilities.

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

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

3) Precision Machinery Business
Engages in manufacturing, sales, and maintenance services related to dry vacuum pumps and CMP systems.

For the manufacture and sales of products in the 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 of the products is transferred to the customer and the performance obligation is satisfied primarily at the time of delivery or inspection of the products.

Revenue is measured at the amount of consideration promised in the contract with a customer, by deducting discounts, late fees, and other charges. For variable consideration, including variable discounts, the amount of consideration is estimated using all reasonably available information, and revenue is recognized only to the extent that it is highly probable that a significant reversal will not occur. Furthermore, the Group does not adjust the interest rate component of the consideration because it expects that, at the inception of the contract, the period between the time when the goods or services are transferred to the customer and the time when the customer pays the consideration is one year or less, applying practical expedients under IFRS 15 "Revenue from Contracts with Customers."

If multiple performance obligations are identified in the contract, the transaction amount is allocated to each performance obligation, mainly at a ratio of observable standalone selling price.

(13) Income taxes

Income tax expense is shown as the aggregate amount of current tax and deferred tax.

Current tax is measured at the amount expected to be paid to, or recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period. These are recognized under the profit or loss of the fiscal year under review, excluding items associated with a business combination and those recognized directly under equity or other comprehensive income.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are measured based on a temporary difference which is the difference between the carrying amount of assets and liabilities, and the tax base of assets and liabilities, and based on losses carried forward. Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which the deductible temporary differences, tax loss carried forward and tax credit carried forward, can be utilized.

Deferred tax assets and liabilities are not recognized for temporary differences arising from the initial recognition of an asset/liability other than in a business combination which, at the time of the transaction, does not affect either the accounting or taxable income. Further, deferred tax liabilities are not recognized for taxable temporary differences arising from the initial recognition of goodwill.

Taxable temporary differences related to investments in subsidiaries and affiliates are recognized as deferred tax liabilities. However, deferred tax liabilities are not recognized if the Group can control the timing of the reversal of temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets are also recognized for deductible temporary differences associated with investments in subsidiaries and affiliates, but only to the extent that the Group is able to control the timing of the reversal of the differences, and it is probable that the reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets against current tax liabilities, and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

(14) Borrowing costs

For an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, borrowing costs directly attributable to acquisition, construction or production of such asset are capitalized as part of the cost of that asset. All other borrowing costs are recognized as an expense in the period in which they are incurred.

(15) Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the parent, by the weighted average number of common shares outstanding during the period, adjusted for treasury shares during the period. Diluted earnings per share is calculated after adjusting for the effect of dilutive potential shares.

(16) Hyperinflation adjustment

For subsidiaries in hyperinflationary economies, non-monetary items stated at cost such as goodwill and intangible assets are restated using a conversion factor based on their date of acquisition. Monetary and non-monetary items stated at current cost are not restated because they are considered to be expressed in terms of the measuring unit as of the end of the reporting period.

The effects of restatement of non-monetary items and translation at spot exchange rates are presented as exchange differences on translation of foreign operations through other comprehensive income. The effects of inflation on the net monetary position are presented as finance income or finance costs.

Notes to Accounting Estimates

1. Revenue recognition
   Revenue is recognized mainly for construction and maintenance contracts of the Pumps, Compressors & Turbines, and Chillers businesses of the FMS segment as well as the EP segment, as control of goods or services is transferred over time and therefore performance obligation is satisfied over time. The input method is used to measure progress towards complete satisfaction of a performance obligation, if the outcome of a performance obligation can be reliably determined and measured at the ratio of costs incurred relative to total estimated costs.
   Preconditions in estimates and measurement are reviewed as necessary, and the initial estimate may be amended as a result of incurring additional cost, changes in contract amounts, or for other reasons, and may significantly impact the amount recognized in the consolidated financial statements.
   As of December 31, 2022, the carrying amount of contract assets was ¥100,420 million.

2. Recoverability of deferred tax assets
   Recoverability of deferred tax assets are regularly examined and deferred tax assets are recorded reflecting future estimated taxable income and feasible tax planning, to the extent that it is probable that taxable income will be available against which deductible temporary differences, tax losses carried forward and tax credit carried forward can be utilized. The timing of incurring future taxable income and its amount for assuming estimates are measured based on the business plan approved by the management, but such assumptions may fluctuate due to factors such as the business results at that time. Therefore recoverability will be reviewed to adjust deferred tax assets in the event of any factors that affect these estimates, and may significantly impact the amount of deferred tax assets recognized in the consolidated financial statements.
   As of December 31, 2022, the carrying amount of deferred tax assets was ¥13,720 million.

3. Accounting procedure and evaluation of provisions
   The Group records provisions such as those for warranties on completed construction and for loss on construction contracts. These provisions are recognized if the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.
   Assumptions used to measure such provisions may be affected by changes in uncertain economic conditions in the future, and may significantly impact the amount of provisions recognized in the consolidated financial statements over the future.
   As of December 31, 2022, the carrying amount of provisions was ¥15,408 million.

4. Defined benefit liability
   The Group calculates defined benefit obligations by estimating the amount of future benefits which employees earned as consideration for services provided in the prior and current fiscal years, and then discounting the amount to the present value. The discount rate is a significant actuarial assumption determined by reference to market yields at the end of the fiscal year on high quality corporate bonds with more or less the same maturity as the Group's defined benefit liability.
   Other actuarial assumptions include estimated rates of retirement, mortality and salary increase. Such actuarial assumptions may be affected mainly by changes in the future economic environment or social trends, and any reviews of the assumptions may significantly impact the value of defined benefit liability recognized in the consolidated financial statements.
   As of December 31, 2022, the carrying amounts of retirement benefit assets and liabilities were ¥8,860 million and ¥8,380 million, respectively.

5. Impairment of non-financial assets
   The Group assesses property, plant and equipment as well as goodwill and intangible assets for indication of impairment. If there is an indication of impairment, the Group measures the recoverable amount of each individual asset or cash-generating unit. Further, goodwill or intangible assets with indefinite useful lives and those not yet available for use are tested for impairment at the same time every fiscal year and whenever there is an indication of impairment. The Group uses certain assumptions on factors such as future cash flows, discount rates and growth rates for calculating recoverable amounts in impairment testing.
   Although these assumptions are determined by the management's best estimate and judgment, it may be affected by factors such as changes in uncertain economic conditions in the future and changes in the business plan, and any reviews to the plans may significantly impact the consolidated financial statements.
   As of December 31, 2022, the carrying amounts of property, plant and equipment as well as goodwill and intangible assets were ¥165,715 million and ¥43,333 million, respectively.

The spread of COVID-19 continues worldwide. It is still a major threat, and the situation remains unpredictable. On the other hand, thanks to increasingly active efforts to balance infection prevention measures and economic activities envisaging life with COVID-19, demand for social and industrial infrastructure is recovering.

The Group made accounting estimates assuming that COVID-19 will have only limited impact on the Group's business and that in the following fiscal year, the business environment will remain steady as well.

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

Notes to the Consolidated Statement of Financial Position

1. Pledged assets and related liabilities
   (1) Pledged assets

Buildings and structures	¥1,650 million
Others	¥1,016 million
Total	¥2,666 million

   (2) Liabilities related to the collateral
   None

2. Accumulated depreciation of property, plant and equipment ¥269,048 million

3. Commitments and contingent liabilities
   (1) Loans guaranteed to employees ¥11 million

   (2) Loans guaranteed to non-consolidated subsidiaries and affiliates

   None

   (3) Loans guaranteed to The Ebara Hatakeyama Memorial Foundation (a public interest incorporated foundation) ¥1,645 million

4. Bad debt expense directly deducted from balances of assets
   (1) Trade receivables and other receivables ¥3,118 million
   (2) Other financial assets ¥3,985 million

5. Contingent liabilities
   (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 (received on July 25, 2019). On July 17, 2020, the amount of the compensation claim for damages was amended to ¥4,582 million and late charges for such compensation (received on July 20, 2020), and on August 10, 2021, the compensation claim for damages was amended to ¥4,692 million and late charges for such compensation (received on August 25, 2021). At this time, it is not possible to make a reasonable estimate of the effect of this incident on the Group's consolidated financial results.

Notes to the Consolidated Statement of Changes in Equity

1. Type and number of shares outstanding

Type of shares	Number of shares at the beginning of the fiscal year	Increase	Decrease	Number of shares at the end of the fiscal year
Common shares	95,513,633	85,782	3,513,400	92,086,015

Notes:
1. The increase of 85,782 shares outstanding consists of an increase of 53,200 shares due to the exercise of share acquisition rights and an increase of 32,582 shares due to the issuance of new shares as restricted share-based payment transactions.
2. The decrease of 3,513,400 treasury shares is due to a decrease of 3,513,400 shares from the cancellation of treasury shares following the resolution at the meeting of the Board of Directors.

2. Dividends

(1) Payment of dividends

Date of resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
March 29, 2022 at the Ordinary General Meeting of Shareholders	Common shares	10,393	113	December 31, 2021	March 30, 2022
August 12, 2022 at the Board of Directors meeting	Common shares	7,823	85	June 30, 2022	September 13, 2022

(2) Dividends with record dates falling in the fiscal year under review but whose effective dates falls in the following fiscal year

The Company plans to propose dividends on common shares as follows at the Ordinary General Meeting of Shareholders to be held on March 29, 2023:

Date of resolution	Type of shares	Total dividends (Millions of yen)	Dividend resource	Dividends per share (Yen)	Record date	Effective date
March 29, 2023 at the Ordinary General Meeting of Shareholders	Common shares	9,942	Retained earnings	108	December 31, 2022	March 30, 2023

3. Type and number of shares underlying share acquisition rights (excluding those prior to arrival of exercise period)

Share acquisition rights Common shares 189,300 shares

Notes to Financial Instruments

1. Status of financial instruments

   The Group is exposed to financial risks (credit risk, liquidity risk, and market risk) that may arise in the course of its business activities. In order to avoid or mitigate such financial risks, we manage risks in accordance with certain policies. In addition, the Group's policy is to use derivatives to avoid risk, and not to for speculative purposes.

   (1) Management of credit risk

   The Group's trade receivables are exposed to customer credit risk. In order to mitigate such risk, the Company and its consolidated subsidiaries follow their internal regulations, regularly monitor the conditions of principal counterparties and manage the collection status and balances by entity to early identify and mitigate collectability concerns due to a decline in their financial condition. The Group secures collateral for transactions with some of the counterparties. The Group manages credit risk so that it is not excessively concentrated on a specific counterparty.

   (2) Management of liquidity risk

   The Group manages liquidity risk, which is the risk of default in fulfilling obligations under financial liabilities by cash or other financial assets, by having the Company's finance division prepare and update cash flow plans based on reports from each department as well as maintaining an adequate scale of liquidity on hand in accordance with the status of its business. In addition, to cover financial risk, we secure alternative liquidity mainly by executing commitment line contracts. To improve funding efficiency in the Group, funds are concentrated to the Company under a cash management system (CMS).

   (3) Management of market risk

   1) Foreign exchange risk

   The Company operates business globally, and the resulting trade receivables and payables denominated in foreign currencies are exposed to foreign exchange risk. The Group hedges the exposure to risk mainly of the net position of foreign currency-denominated receivables and payables by using derivatives such as foreign currency forward contracts.

   The Group manages exposure to risks including those of its consolidated subsidiaries based on internal Financial Instruments Management Regulations.

   2) Interest-rate risk

   The Group's interest-bearing debts that have floating interest rates are exposed to interest-rate risk. To mitigate the interest-rate risk, the Group balances the fixed and floating interest rates of borrowings appropriately and uses derivatives such as interest-rate swaps as necessary.

   3) Stock price fluctuation risk

   Equity financial instruments held by the Group are principally stocks in business partners and are exposed to market price fluctuation risk. For equity financial instruments, the Group regularly confirms the market prices and the financial condition of the issuers (counterparties). In addition, for bonds other than those held to maturity, the Group constantly reviews the rationale of holding them based on the relationship with the counterparty.

2. Fair value of financial instruments

   The carrying amount and fair value of financial instruments as of December 31, 2022, the Group's closing date in the fiscal year under review, are as follows:

(Millions of yen)

	Carrying amount	Fair value
(1) Cash and cash equivalents	116,137	116,137
(2) Trade and other receivables	151,665	151,557
(3) Other financial assets	10,323	9,976
(4) Trade and other payables	195,391	195,391
(5) Bonds and borrowings	98,826	97,632
(6) Other financial liabilities	577	575

3. Fair value information by level within the fair value hierarchy of financial instruments
Financial instruments measured at fair value are classified into one of the following three levels of fair values determined based on the observability of inputs to valuation techniques used in the measurement.

Level 1 Fair values measured at quoted prices in active markets for identical assets and liabilities
Level 2 Fair values measured using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3 Fair values measured using inputs not based on observable market data for the asset or liability.

Financial assets and liabilities measured at fair value in the consolidated statement of financial position

(Millions of yen)

	Fair value			
	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through other comprehensive income				
Other financial assets (shares)	–	–	2,225	2,225
Financial assets measured at fair value through profit or loss				
Other financial assets (membership rights)	–	268	–	268
Other financial assets (investment in investment limited partnerships)	–	–	509	509
Derivative assets	–	364	–	364
Total	–	633	2,734	3,368
Financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivative liabilities	–	90	–	90
Total	–	90	–	90

Note: Methods of measuring the fair value of financial instruments

(1) Financial instruments measured at amortized cost
Methods for measuring major financial instruments measured at amortized cost are as follows:
1) Cash and cash equivalents
Because these items are settled within short periods, their carrying amounts approximate their fair values.
2) Trade receivables
Trade receivables are categorized into certain periods and discounted per item taking into account the period to maturity and credit risk.
3) Other receivables, and trade and other payables
Because these items are settled within short periods, their carrying amounts approximate their fair values.
4) Other financial assets and other financial liabilities
The fair values of non-current items are calculated by estimating their future cash flows and discounting them to their present value using a discount rate that takes into account credit risk. Because current items are settled within short periods, their carrying amounts approximate their fair values.
5) Bonds and borrowings
The fair values of bonds and long-term borrowings with a contract term of over one year are calculated based on the present value which is the sum of principal amount discounted at an assumed interest rate for a similar new borrowing.

For the fair value hierarchy of financial instruments measured at amortized cost, bonds and borrowings are classified as Level 2 and other financial assets and other financial liabilities are classified primarily as Level 3. The fair values relating to the financial instruments classified as Level 3 are measured in accordance with relevant internal rules. In measuring fair values, valuation techniques and inputs are adopted that most appropriately reflect the nature, characteristics, and risks of the financial instruments being measured.

(2) Financial instruments measured at fair value

The methods for measuring major financial instruments measured at fair value are as follows:

1) Shares

Shares are included in other financial assets and are classified as equity instruments measured at fair value through other comprehensive income. As for shares, those classified as Level 1 of the fair value hierarchy are quoted prices of listed shares in active markets. Those classified as Level 2 are unlisted shares and are evaluated using observable market data. Those classified as Level 3 are unlisted shares measured mainly using the valuation model based on net assets (a method to measure corporate value based on the net assets of the issuer adjusted as necessary depending on market value evaluation) or using fair values based on recently obtained appraisal reports by external appraisers (use valuation techniques including the comparable transaction multiple method).

2) Membership rights

Membership rights are included in other financial assets and are classified as financial assets and financial liabilities measured at fair value through profit or loss. Their fair value is mainly based on quoted market prices.

3) Investment limited partnerships

Investment in investment limited partnerships is included in other financial assets and is calculated based on the amount equivalent to equity held in the partnership assets.

4) Derivative assets and derivative liabilities

Derivative assets and derivative liabilities are included in other financial assets and other financial liabilities, respectively, and are classified as financial assets and financial liabilities measured at fair value through profit or loss. Derivatives are mainly transactions related to foreign exchange contracts and interest rate swaps, and their fair values are calculated based on observable market data presented by counterparty financial institutions.

Notes to Per Share Data

1. Equity attributable to owners of parent per share ¥3,910.07
2. Basic earnings per share ¥548.61

Notes on Revenue Recognition

Details of revenue recognition are as described in "Significant Accounting Principles, 5. Significant accounting policies, (12) Revenue."

1. Disaggregation of revenue

The Group has three reportable segments: Fluid Machinery & Systems Business, Environmental Plants Business, and Precision Machinery Business, disaggregating its revenue by business. The relation between the revenue disaggregated by business and revenue from each reportable segment is as follows. The amount of revenue recognized from other sources was not material.

(Millions of yen)

<table>
<tr><th>Reportable segments</th><th>Business</th><th>Fiscal year ended December 31, 2022</th></tr>
<tr><td rowspan="4">Fluid Machinery & Systems Business</td><td>Pumps Business</td><td>209,000</td></tr>
<tr><td>Compressors and Turbines Business</td><td>111,754</td></tr>
<tr><td>Chillers Business</td><td>48,676</td></tr>
<tr><td>Others</td><td>13,962</td></tr>
<tr><td colspan="2">Environmental Plants Business</td><td>73,738</td></tr>
<tr><td colspan="2">Precision Machinery Business</td><td>222,259</td></tr>
<tr><td colspan="2">Others</td><td>1,478</td></tr>
<tr><td colspan="2">Total</td><td>680,870</td></tr>
</table>

Note: Above amounts are exclusive of intra-group transactions.

2. Contract balance

The balance of receivables from contracts with customers, contract assets, contract liabilities, and refund liabilities is as follows:

(Millions of yen)

	As of December 31, 2022
Receivables from contracts with customers	152,591
Contract assets	100,420
Contract liabilities	63,168
Refund liabilities	2,024

Consideration for receivables from contracts with customers is mostly received within one year after fulfilling performance obligations in accordance with payment conditions set forth separately. Receivables from contracts with customers are recognized in "Trade and other receivables" on the consolidated statement of financial position.

Contract assets consist primarily of the rights to consideration to be received in exchange for the fulfilled portion of contract obligations, which is measured based on the progress of such obligations at the end of the reporting period for construction contracts, excluding receivables. Contract assets will be transferred to receivables once the Group's rights to consideration become unconditional in which only the passage of time is required before payment of the consideration is due.

An impairment loss recognized on receivables from contracts with customers and contract assets during the fiscal year ended December 31, 2022 was ¥287 million.

Contract liabilities are recognized primarily for the portion for which consideration has been received from the customer but the performance obligation has not been satisfied. Contract liabilities increase when the Company receives consideration from customers before the transfer of goods or services to customers, and decrease when performance obligations have been fulfilled.

Of the revenue recognized during the fiscal year ended December 31, 2022, the amount included in the beginning balance of contract liabilities was ¥43,155 million.

Refund liabilities are measured against discounts, late charges, etc. to the extent that it is highly probable that no significant reversals will occur, using all the information that is reasonably available to estimate the amount of consideration.

The amount of revenue recognized from performance obligations satisfied in prior periods was immaterial.

3. Transaction prices allocated to remaining performance obligations

Transaction prices allocated to unsatisfied performance obligations are as follows. There are no material amounts of consideration arising from contracts with customers that are not included in the transaction price.

(Millions of yen)

Reportable segments	As of December 31, 2022
Fluid Machinery & Systems Business	269,788
Environmental Plants Business	317,491
Precision Machinery Business	230,811
Others	67
Total	818,158

These transactions mainly fall under long-term comprehensive contracts in the Custom Pumps and Compressors & Turbines business in Fluid Machinery & Systems Business, as well as Environmental Plants Business, and most of them are related to construction contracts that satisfy performance obligations over a long period of time exceeding one year. Unsatisfied performance obligations in each reportable segment are largely expected to be completed and recognized as revenue within the following periods from the end of each fiscal year.

Fluid Machinery & Systems Business: within 3 years
Environmental Plants Business: within 20 years
Precision Machinery Business: within 1 year

4. Assets recognized from costs to obtain or fulfill contracts with customers

Of the incremental costs incurred to obtain contract with customers and the costs to fulfill contracts that are related directly to the contracts, the Group recognizes the portion that it believes is collectible as assets, and records such portion as other assets in the consolidated statement of financial position. The incremental costs incurred to obtain contracts refer to the costs that the Group has incurred to obtain contracts with customers but would not have incurred if the contract had not been obtained.

The incremental costs incurred to obtain contracts that are capitalized at the Group are primarily sales commissions paid to distributors to acquire sale contracts. The costs incurred to fulfill contracts are primarily bid preparation expenses and expenses required for development and research activities prior to public announcement. If the amortization period of the asset to be recognized is one year or less, the incremental cost of obtaining contracts is expensed as incurred, using the practical expedient.

(Millions of yen)

	As of December 31, 2022
Assets recognized from costs to obtain contracts	205
Assets recognized from costs to fulfill contracts	–
Total	205

These assets are amortized based on the pattern of transfer to customers of goods and services related to applicable construction contracts. The amount of amortization attributable to assets recognized from the contract costs during the fiscal year ended December 31, 2022 was ¥148 million.

Additional Information

(Business Combination through Acquisition)

Based on an equity interest purchase agreement concluded on September 28, 2022, the Group has acquired all equity interests of Hayward Gordon Holdings, L.P., a North American pump and mixer manufacturer, and its six subsidiaries.

(1) Overview of the Business Combination

(i) Name and business of acquired companies

Names of acquired companies

Hayward Gordon Holdings, L.P. and its six subsidiaries

Business description

Manufacture, sale, and after-sales service of industrial pumps, mixers, and monitoring systems, etc.

(ii) Date of acquisition: September 30, 2022

(iii) Percentage of voting rights acquired: 100.0%

(iv) Primary reason for the business combination

To expand the Group's product lineup and acquire distribution channels mainly for the public wastewater, industrial equipment, and process markets with the aim of further developing its standard pumps business in the North American region.

(v) Legal form of the business combination:

Cash acquisition of shares

(2) Consideration paid, fair value of assets acquired and liabilities assumed, and amount of goodwill as of the date of business combination

(Millions of yen)

	Amount
Fair value of acquisition costs	
Cash	14,969
Total	14,969
Fair value of acquired assets	
Cash and cash equivalents	294
Trade and other receivables	1,783
Contract assets	1,302
Inventories	1,666
Property, plant and equipment	368
Intangible assets	4,848
Other assets	286
Fair value of assumed liabilities	
Trade and other payables	993
Contract liabilities	1,115
Borrowings and lease obligations	313
Other liabilities	1,627
Fair value of acquired assets and assumed liabilities (net)	6,500
Goodwill	8,469
Total	14,969

Notes:

1. The fair value of ¥1,783 million in trade and other receivables (mainly accounts receivable-trade) comprises the total contract amount of ¥1,804 million less ¥21 million, the estimate as of the acquisition date of contractual cash flows that are expected to be irrecoverable.
2. Goodwill generated by this business combination is recorded in the FMS Business and mainly comprises impacts of synergies with existing businesses and excess earning power expected from

the acquisition that do not meet the requirements for recognition individually. No amount of this goodwill is expected to be deductible for tax purposes.

(3) Acquisition-related costs

Acquisition-related costs related to this business combination amount to ¥363 million, all of which are recorded as selling, general and administrative expenses.

(4) Effect on the financial results

(i) Revenue and profit included in the consolidated statement of profit or loss for the fiscal year under review

Revenue ¥1,978 million
Profit ¥218 million

(ii) Effect on revenue and profit in consolidated statement of profit or loss assuming that the business combination was implemented at the beginning of the period (unaudited)

Revenue ¥7,802 million
Profit ¥(184) million

Notes on Significant Subsequent Events

None

Non-consolidated Balance Sheet

December 31, 2022

(Millions of yen)

Assets		Liabilities	
Account	**Amount**	**Account**	**Amount**
Current assets	**299,123**	**Current liabilities**	**187,881**
Cash and deposits	46,820	Notes payable - trade	1,355
Notes receivable - trade	5,394	Accounts payable - trade	25,047
Accounts receivable - trade	50,634	Electronically recorded obligations - operating	82,189
Electronically recorded monetary claims - operating	31,226	Short-term borrowings	12,482
Contract assets	22,044	Current portion of long-term borrowings	11,872
Finished goods	1,858	Income taxes payable	2,677
Work in process	51,948	Provision for bonuses	4,263
Raw materials and supplies	45,230	Provision for bonuses for directors (and other officers)	221
Other	44,331	Provision for warranties for completed construction	1,280
Allowance for doubtful accounts	(366)	Provision for product warranties	2,829
Non-current assets	**250,298**	Provision for loss on construction contracts	1,264
Property, plant and equipment	**86,149**	Other	42,397
Buildings and structures	38,378	**Non-current liabilities**	**59,994**
Machinery and equipment	21,531	Bonds payable	30,000
Land	19,067	Long-term borrowings	26,050
Construction in progress	3,778	Provision for retirement benefits	84
Other	3,394	Other	3,860
Intangible assets	**16,873**	**Total liabilities**	**247,875**
Software	16,593	**Net assets**	
Other	279	**Shareholders' equity**	**301,086**
Investments and other assets	**147,275**	**Share capital**	**79,804**
Investment securities	1,926	**Capital surplus**	**83,732**
Shares of subsidiaries and associates	94,824	Legal capital surplus	83,732
Investments in capital of subsidiaries and associates	37,136	**Retained earnings**	**137,686**
Long-term loans receivable	1,448	Other retained earnings	137,686
Prepaid pension costs	4,214	Reserve for purchase of specified shares	75
Deferred tax assets	6,108	Retained earnings brought forward	137,611
Other	3,461	**Treasury shares**	**(136)**
Allowance for doubtful accounts	(1,844)	**Share acquisition rights**	**459**
		Total net assets	**301,546**
Total assets	**549,421**	**Total liabilities and net assets**	**549,421**

Non-consolidated Statement of Income

From January 1, 2022
to December 31, 2022

(Millions of yen)

Account	Amount	
Net sales		**292,333**
Cost of sales		**205,923**
Gross profit		**86,409**
Selling, general and administrative expenses		**62,207**
Operating profit		**24,202**
Non-operating income		
Interest income	590	
Dividend income	24,209	
Foreign exchange gains	500	
Other	137	25,438
Non-operating expenses		
Interest expenses	576	
Extra retirement payments	622	
Commission for commitment line	105	
Provision of allowance for doubtful accounts	187	
Other	223	1,715
Ordinary profit		**47,925**
Extraordinary income		
Gain on sale of non-current assets	5	
Gain on sale of investments in capital	0	
Other	0	6
Extraordinary losses		
Loss on retirement of non-current assets	103	
Impairment losses	364	
Loss on valuation of investment securities	1,013	
Loss on valuation of investments in capital	0	1,482
Profit before income taxes		**46,449**
Income taxes - current	3,725	
Income taxes - deferred	(0)	3,724
Profit		**42,724**

Non-consolidated Statement of Changes in Net Assets

From January 1, 2022
to December 31, 2022

(Millions of yen)

	Shareholders' equity						
		Capital surplus			Retained earnings		
					Other retained earnings		
	Share capital	Legal capital surplus	Other capital surplus	Total capital surplus	Reserve for purchase of specified shares	Retained earnings brought forward	Total retained earnings
Balance at beginning of period	**79,643**	**83,571**	**0**	**83,572**	**–**	**133,082**	**133,082**
Changes during period							
Issuance of new shares	160	160		160			
Dividends of surplus						(18,216)	(18,216)
Provision of reserve for purchase of specified shares					75	(75)	–
Profit						42,724	42,724
Purchase of treasury shares							
Disposal of treasury shares			0	0			–
Cancellation of treasury shares			(0)	(0)		(19,902)	(19,902)
Total changes during period	**160**	**160**	**(0)**	**160**	**75**	**4,529**	**4,604**
Balance at end of period	**79,804**	**83,732**	**–**	**83,732**	**75**	**137,611**	**137,686**

(Millions of yen)

	Shareholders' equity		Share acquisition rights	Total net assets
	Treasury shares	Total shareholders' equity		
Balance at beginning of period	**(20,031)**	**276,266**	**585**	**276,851**
Changes during period				
Issuance of new shares		321	(125)	195
Dividends of surplus		(18,216)		(18,216)
Provision of reserve for purchase of specified shares		–		–
Profit		42,724		42,724
Purchase of treasury shares	(8)	(8)		(8)
Disposal of treasury shares	0	0		0
Cancellation of treasury shares	19,903	–		–
Total changes during period	**19,894**	**24,820**	**(125)**	**24,694**
Balance at end of period	**(136)**	**301,086**	**459**	**301,546**

Notes to the Non-consolidated Financial Statements

Significant Accounting Principles

1. Valuation standards and valuation methods of assets
   (1) Valuation standards and valuation methods of securities
   Securities
   Held-to-maturity securities
   Amortized cost method (Straight line method)
   Shares of subsidiaries and associates
   Gross average cost method
   Other securities
   Items other than shares, etc. without a market price
   Fair value method (Unrealized gains or losses, net of tax, are credited or debited to net assets as shown in the balance sheet. Cost of securities sold is determined using the gross average cost method.)
   Shares, etc. without a market price
   Gross average cost method

   (2) Valuation standards and valuation methods of derivatives
   Derivatives
   Fair value method

   (3) Valuation standards and valuation methods of inventories
   Inventories
   Merchandise and finished goods as well as raw materials and supplies
   Gross average cost method, except for in the Precision Machinery Business, which employs the moving average method. (Book value is written down in line with decline in profitability.)
   Work in process
   Specific identification cost method. (Book value is written down in line with decline in profitability.)

2. Depreciation method of non-current assets
   (1) Property, plant and equipment (except leased assets)
   The straight-line method is used.
   Minor assets acquired at prices ranging from ¥100,000 to less than ¥200,000 are amortized in a lump sum equally over a three-year period as specified in the Japanese Corporation Tax Act.

   (2) Intangible assets (except leased assets)
   Intangible assets are amortized on a straight-line basis, according to the criteria specified in the Japanese Corporation Tax Act.
   Software used in the Company is amortized on a straight-line basis for the estimated useful life of five years.

   (3) Leased assets
   Leased 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 with a residual value of zero.

3. Standards for allowances and provisions
   (1) 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.

   (2) Provision for bonuses
   A provision for bonuses is recorded based on the expected amount to be paid.

   (3) Provision for bonuses for directors (and other officers)
   A provision for bonuses for directors (and other officers) is recorded in an amount deemed to be incurred

at the fiscal year-end.

(4) Provision for retirement benefits

To cover retirement benefits for employees, the Company provides an amount deemed to be incurred at the fiscal year-end based on an estimate of retirement benefit obligations and plan assets at the fiscal year-end.

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 differences are recorded in an amount at the fiscal year-end of accrual prorated using the declining-balance method over a certain number of years within the average remaining service period of employees, and amortized starting from the following fiscal year.

However, if the amount of plan assets to be recognized at the fiscal year-end exceeds the amount of retirement benefit obligations less actuarial differences, it is recorded in investments and other assets, as prepaid pension costs.

(5) Provision for warranties for completed construction

To cover liability for non-conformity (defect warranty) on completed construction, the Company provides an estimated amount of guarantee expenses obtained by multiplying the amount of completed construction contracts by a reasonably computed rate of incidence.

(6) Provision for product warranties

To cover liability for non-conformity (defect warranty) on sales contracts, the Company provides and estimated amount of guarantee expenses obtained by multiplying the amount of product sales by a reasonably computed rate of incidence.

(7) Provision for loss on construction contracts

To cover possible losses on contracted construction projects, the Company provides an estimated amount of losses for uncompleted projects deemed to have a high possibility of incurring losses which can be reasonably estimated at the fiscal year-end.

4. Recognition standard of revenue and expenses

The Company has adopted the "Accounting Standard for Revenue Recognition" (Accounting Standards Board of Japan (ASBJ) Statement No. 29) and the "Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30), and recognizes revenue at the amount expected to be received in exchange for its goods or services when control of the promised goods or services is transferred to a customer.

Details are as described in "Significant Accounting Principles, 5. Significant accounting policies, (12) Revenue."

5. Significant accounting principles

(1) Hedging transactions

1) Hedging transactions

Gains or losses and evaluation differences related to hedging transactions accounted for at fair value are deferred as assets or liabilities until recognized. Evaluation gains and losses on foreign exchange contracts and currency options that qualify are allocated to settlement periods throughout the period of the contract of underlying monetary claims and liabilities denominated in foreign currencies. Interest rate swaps that qualify are treated as special exceptions.

2) Hedging instruments and hedged items

Hedging instruments	Foreign exchange forward contracts, foreign currency swap contracts and interest rate swap agreements
Hedged items	Monetary claims and liabilities denominated in foreign currencies

3) Hedging policy

The Company hedges currency exchange rate risk and interest rate risk based on an internal risk management policy.

4) Assessing hedge effectiveness

Interest rate risk	Hedge effectiveness is assessed by comparing cumulative changes

	in cash flows of hedging instruments and hedged items over the duration of the hedge transaction up to the time of assessment, except for interest rate swaps that qualify as special exceptions, for which assessment is omitted.
Currency exchange rate risk	As long as one hedging instrument and one hedged item correspond, the hedge is considered effective.

(2) Consolidated taxation system
The Company applies the consolidated taxation system.

Adoption of tax effect accounting upon the transition from the consolidated taxation system to the group tax sharing system
The Company and some of its consolidated subsidiaries will shift from the consolidated taxation system to the group tax sharing system in the fiscal year ending December 31, 2023. However, for the transition 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 the items for which non-consolidated taxation system was reviewed in conjunction with the transition to the group taxation system, the Company and these consolidated subsidiaries do not apply the provisions of paragraph 44 of the "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) in accordance with 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 Practical Issues Task Force (PITF) No. 39, March 31, 2020). The amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law before the revision.
From the beginning of the fiscal year ending December 31, 2023, the Company plans to apply the "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" (ASBJ PITF No. 42, August 12, 2021), which provides for accounting treatment and disclosure of corporation tax, local corporation tax, and tax effect accounting under the group tax sharing system.

Notes to Changes in Presentation
(Adoption of Accounting Standard for Revenue Recognition, etc.)
The Company has adopted the "Accounting Standard for Revenue Recognition," (ASBJ Statement No. 29, March 31, 2020), etc. (hereinafter the "2020 Amendments") from the beginning of the fiscal year under review.
The Company has already adopted the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 30, 2018), etc. from the beginning of the fiscal year ended December 31, 2020.
As a result of the adoption of the 2020 Amendments, which mainly revised the disclosure (method of presentation and notes) on revenue recognition, "Contract assets," which was included in "Accounts receivable-trade" in the previous fiscal year, is presented separately from the fiscal year under review.

(Statement of income)
In the previous fiscal year, "Provision of allowance for doubtful accounts" was included in "Other" under "Non-operating expenses." Due to increased materiality in amount, it is presented separately from the fiscal year under review.

Notes to Accounting Estimates

1. Revenue recognition

Contract assets	¥22,044 million

Details on accounting estimates are as described in "Notes to the Consolidated Financial Statements – Notes to Accounting Estimates – Revenue recognition."

2. Recoverability of deferred tax assets

Details on accounting estimates are as described in "Notes to the Consolidated Financial Statements – Notes to Accounting Estimates – Recoverability of deferred tax assets."
The book value of deferred tax assets at the end of the fiscal year under review is described in "Notes to the Non-consolidated Financial Statements – Notes to Income Taxes."

3. Measurement of prepaid pension costs

Prepaid pension costs	¥4,214 million

Details on accounting estimates are as described in "Notes to the Consolidated Financial Statements – Notes to Accounting Estimates – Defined benefit liability."

4. Allowances and provisions

Provision for warranties for completed construction	¥1,280 million
Provision for product warranties	¥2,829 million
Provision for loss on construction contracts	¥1,264 million

Details on accounting estimates are described in "Notes to the Consolidated Financial Statements – Notes to Accounting Estimates – Accounting procedure and evaluation of provisions."

5. Impairment losses for non-current assets

Property, plant and equipment	¥86,149 million
Intangible assets	¥16,873 million

In assessing the recoverability of impairment of non-current assets, assets are grouped for each segment, and for asset groups whose profitability has declined significantly, the book value of non-current assets is reduced to the recoverable amount, and the decrease is recorded as an impairment loss. As the recoverable value of non-current assets is calculated based on assumptions such as future cash flows, discount rates, and net selling price, if revenue is not generated as initially expected, or if changes are made to assumptions on future cash flows, or for other reasons, non-current assets may be written down, and significantly impact the non-consolidated financial statements.

6. Evaluation of shares of subsidiaries and associates and investments in capital of subsidiaries and associates

Shares of subsidiaries and associates	¥94,824 million
Investments in capital of subsidiaries and associates	¥37,136 million

In the event that substantive value of the shares of subsidiaries and associates without market value and investments in capital of subsidiaries and associates declined by about 50% or more compared to the acquisition price, the Company records a loss on valuation, unless the entity's business plan provides sufficient evidence of recoverability. Some shares of subsidiaries and associates are evaluated by adding the excess earning power at the time of acquisition of the entity to the substantive value. Although business plans are determined by the management's best estimate and judgment, it may be affected by factors such as changes in uncertain economic conditions in the future and changes in the business plan, and any reviews to the plans may significantly impact the non-consolidated financial statements.

The impact of COVID-19 is as described in "Notes to the Consolidated Financial Statements – Notes to Accounting Estimates."

Notes to the Non-consolidated Balance Sheet

1. Accumulated depreciation of property, plant and assets	¥122,111 million
2. Commitments and contingent liabilities	
(1) Loans guaranteed to employees for housing	¥11 million
(2) Loans guaranteed to subsidiaries and associates	¥17,099 million
Consolidated subsidiaries	
ELLIOTT COMPANY	¥16,754 million
Ebara Thermal Systems (Thailand) Co., Ltd.	¥345 million
Total	¥17,099 million
(3) Loans guaranteed to The Ebara Hatakeyama Memorial Foundation (a public interest incorporated foundation)	¥1,645 million
3. Monetary claim and liabilities to subsidiaries and associates	
Short-term monetary claim to subsidiaries and associates	¥75,099 million
Long-term monetary claim to subsidiaries and associates	¥1,355 million
Short-term monetary liabilities to subsidiaries and associates	¥26,912 million

Notes to the Non-consolidated Statement of Income

Amount of transactions with subsidiaries and associates	
Amount of operating transactions	
Amount of net sales	¥95,534 million
Amount of purchases	¥31,008 million
Amount of non-operating transactions	¥26,962 million

Notes to the Non-consolidated Statement of Changes in Net Assets

Treasury shares

(Shares)

Type of shares	Number of shares at the beginning of the fiscal year	Increase	Decrease	Number of shares at the end of the fiscal year
Common shares	3,536,073	1,809	3,513,460	24,422

Notes:

1. The increase of 1,809 treasury shares is due to an increase of 1,660 shares from the purchase of odd-lot shares and an increase of 149 shares from the acquisition without compensation under the restricted stock compensation scheme.
2. The decrease of 3,513,460 treasury shares is due to a decrease of 60 shares from the sale of odd-lot shares and a decrease of 3,513,400 shares from the cancellation of treasury shares following the resolution at the meeting of the Board of Directors.

Notes to Income Taxes

Significant components of deferred tax assets and deferred tax liabilities

Deferred tax assets:	
Provision for bonuses	¥1,305 million
Loss recognized on a percentage-of completion basis	¥511 million
Provision for retirement benefits	¥1,357 million
Loss on valuation of investment securities	¥71 million
Loss on valuation of shares of subsidiaries and associates	¥2,693 million
Loss on valuation of inventories	¥2,993 million
Loss on retirement of non-current assets	¥836 million
Depreciation	¥527 million
Provision for warranties for completed construction	¥1,692 million
Excess allowance for doubtful accounts	¥677 million
Accounts payable-other	¥727 million
Others	¥3,104 million
Subtotal	¥16,501 million
Valuation allowance	¥(9,721) million
Total deferred tax assets	¥6,779 million
Deferred tax liabilities:	
Others	¥670 million
Total deferred tax liabilities	¥670 million
Net deferred tax assets	¥6,108 million

Notes to Related Parties

1. Transactions with subsidiaries and associates

Attribute	Name	Investment ratio	Nature of relationship	Details of the transaction	Amount of the transaction (Millions of yen)	Accounting item	Year-end balance (Millions of yen)
Subsidiary	EBARA FIELD TECH. CORPORATION	Ownership Directly 100%	- The entity provides sale and after-sales service for the Company's component devices and semiconductor manufacturing equipment - The Company lends buildings and plants - The Company borrows money from the entity - One interlocking director	Sales	25,842	Accounts receivable-trade	3,415
						Electronically recorded monetary claims - operating	16,941
						Contract assets	0
Subsidiary	Elliot Ebara Turbomachinery Corporation	Ownership Indirectly 100%	- The Company sells pumps - The Company purchases its compressors and turbines - The Company lends buildings and plants - The Company borrows money from the entity - One interlocking director	Borrowing of money (Note 3) Interest income Interest expenses	(1,743) 1 13	Short-term borrowings	5,994
Subsidiary	Ebara Environmental Plant Co., Ltd.	Ownership Directly 100%	- The Company sells pumps and pump parts - The Company procures electricity for its plants from the entity - The Company lends buildings - The Company borrows money from the entity - One interlocking director	Borrowing of money (Note 3) Interest expenses	10,613 19	Short-term borrowings	500
Subsidiary	ELLIOTT COMPANY	Ownership Indirectly 100%	- The Company purchases its compressors and turbines - The Company guarantees its bank loan - The Company lends money - Three interlocking directors	Lending of money (Note 3) Interest income Bank loan guarantee (Note 4)	4,360 120 16,754	Short-term loans receivable	6,661

Terms and conditions of transactions and policies for determining them

Notes:

1. Terms and conditions of transactions such as prices are determined upon negotiation after the Company presents its preferred price taking into account prevailing market prices.
2. Interest rates for lending and borrowing money are determined by reference to market rates.
3. Money is lent and borrowed under the cash management system (CMS), and the amount of the transaction shows changes from the balance at the beginning of the fiscal year under review.
4. The Company provides guarantees of bank loans of related parties and receives guarantee fees.

2. Transactions with officers and major individual shareholders

(Millions of yen)

Attribute	Name	Investment ratio	Nature of relationship	Details of the transaction	Amount of the transaction	Accounting item	Year-end balance
Officer	Toichi Maeda	(Held) Directly 0.0%	Director, Chairman of the Company	In-kind contribution of monetary remuneration claims (Note)	20	–	–
Officer	Masao Asami	(Held) Directly 0.0%	President, Representative Executive Officer, CEO & COO of the Company	In-kind contribution of monetary remuneration claims (Note)	16	–	–

Note: The in-kind contribution of monetary remuneration claims was made under the restricted share-based compensation system.

Notes to Per Share Data

1. Net assets per share	¥3,270.49
2. Net income per share	¥464.25

Notes on Revenue Recognition

Please see "Significant Accounting Principles, 4. Recognition standard for revenue and expenses" for further details.

Additional Information

(Business Combination through Acquisition)

Based on an equity interest purchase agreement concluded on September 28, 2022, the Company has acquired all equity interests of Hayward Gordon Holdings, L.P., a North American pump and mixer manufacturer, and its six subsidiaries.

Further details are as described in "Notes to the Consolidated Financial Statements – Additional Information (Business Combination through Acquisition)."

Notes on Significant Subsequent Events

None

Copy of the Report of the Accounting Auditor's Audit Report on Consolidated Financial Statements (translation)

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 statement of financial position as at December 31, 2022, and the consolidated statements of profit or loss and changes in equity for the year then ended, and notes to the consolidated financial statements pursuant to Article 444, Paragraph 4 of the Companies Act.

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, 2022, and its consolidated financial performance for the year then ended in accordance with accounting principles, with partial omission of the disclosure items required under the designated international accounting standards, pursuant to the provisions of the second clause of Article 120, Paragraph 1 of the Regulations on Corporate Accounting of 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 audit opinion.

Other Information
The other information comprises the business report and its accompanying supplementary schedules. Management is responsible for the preparation and disclosure of the other information. In addition, the Audit Committee is responsible for overseeing the Executive Officers and Directors' execution of duties relating to the design and operation of the Group's reporting process of the other information.
Our audit opinion on the consolidated financial statements does not cover the other information, and we do not express any opinion on the other information.
In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the course of audit, and pay attention to whether there are any signs of a material misstatement in the other information other than such material inconsistencies.
If, based on the work we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact.
We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of consolidated financial statements in accordance with accounting principles, with partial omission of the disclosure items required under the designated international accounting standards, pursuant to the provisions of the second clause of Article 120, Paragraph 1 of the Regulations on Corporate Accounting of 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 matters related to going concern, as required by accounting principles, with partial omission of the disclosure items required under the designated international accounting standards, pursuant to the provisions of the second clause of Article 120, Paragraph 1 of the Regulations on Corporate Accounting of Japan.

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

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 with partial omission of the disclosure items required under the designated international accounting standards, pursuant to the provisions of the second sentence of Article 120, Paragraph 1 of the Regulations on Corporate Accounting of 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.

Conflicts of Interest
We have no interest in the Group which should be disclosed in accordance with the Certified Public Accountants Act.

Ernst & Young ShinNihon LLC
Tokyo, Japan
March 5, 2023

Mineo Kanbayashi
Designated Engagement Partner
Certified Public Accountant

Takayuki Ando
Designated Engagement Partner
Certified Public Accountant

Keita Tsujimoto
Designated Engagement Partner
Certified Public Accountant

Copy of the Report of Independent Auditors (translation)

Independent Auditor's Report

The Board of Directors
EBARA CORPORATION

Opinion
We have audited the accompanying non-consolidated financial statements of EBARA CORPORATION (the Company), which comprise the non-consolidated balance sheet as at December 31, 2022, and the non-consolidated statements of income and changes in net assets for the year then ended (the 158th period), notes to the non-consolidated financial statements and the related supplementary schedules (the non-consolidated financial statements, etc.) pursuant to Article 436, Paragraph 2, Item 1 of the Companies Act.

In our opinion, the accompanying non-consolidated financial statements, etc. present fairly, in all material respects, the non-consolidated financial position of the Company as at December 31, 2022, and its non-consolidated financial performance 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 Non-consolidated Financial Statements, etc. section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the non-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 audit opinion.

Other Information
The other information comprises the business report and its accompanying supplementary schedules. Management is responsible for the preparation and disclosure of the other information. In addition, the Audit Committee is responsible for overseeing the Executive Officers and Directors' execution of duties relating to the design and operation of the Company's reporting process of the other information.
Our audit opinion on the non-consolidated financial statements, etc. does not cover the other information, and we do not express any opinion on the other information.
In connection with our audit of the non-consolidated financial statements, etc., our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the non-consolidated financial statements, etc. or our knowledge obtained in the course of audit, and pay attention to whether there are any signs of a material misstatement in the other information other than such material inconsistencies.
If, based on the work we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact.
We have nothing to report in this regard.

Responsibilities of Management and the Audit Committee for the Non-consolidated Financial Statements, etc.
Management is responsible for the preparation and fair presentation of non-consolidated financial statements, etc. in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of non-consolidated financial statements, etc. that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee is responsible for overseeing the Executive Officers and Directors' execution of duties relating to the design and operation of the Company's reporting process.

Auditor's Responsibilities for the Audit of the Non-consolidated Financial Statements, etc.
Our objectives are to obtain reasonable assurance about whether the non-consolidated financial statements, etc. 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 non-consolidated financial statements, etc.

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 non-consolidated financial statements, etc., 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 non-consolidated financial statements, etc. is not expressing an opinion on the effectiveness of the Company'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 Company'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 non-consolidated financial statements, etc. 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 Company to cease to continue as a going concern.
· Evaluate the overall presentation, structure and content of the non-consolidated financial statements, etc., including the disclosures, and whether the non-consolidated financial statements, etc. represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.

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.

Conflicts of Interest
We have no interest in the Company which should be disclosed in accordance with the Certified Public Accountants Act.

Ernst & Young ShinNihon LLC
Tokyo, Japan
March 5, 2023

Mineo Kanbayashi
Designated Engagement Partner
Certified Public Accountant

Takayuki Ando
Designated Engagement Partner
Certified Public Accountant

Keita Tsujimoto
Designated Engagement Partner
Certified Public Accountant

Copy of the Audit Committee's Audit Report (translation)

Audit Report

The Audit Committee conducted an audit of the duties of the Directors and Executive Officers in the fiscal year from January 1, 2022 to December 31, 2022. The method and results thereof are as follows.

1. Method and Content of Audit

The Audit Committee periodically receives reports from Directors, Executive Officers and employees, etc. on resolutions of the Board of Directors concerning matters listed in Article 416(1) (i) (b) and (e) of the Companies Act, and the development and implementation of systems developed based on such resolutions (internal control systems), and asked for explanations and expressed opinions as necessary, in addition to conducting audits using the following methods.

(i) In accordance with the audit policy and the segregation of duties established by the Audit Committee, the Committee worked with the Company's Internal Control Division, attended important meetings and received reports from Directors and Executive Officers, etc. on the execution of their duties, requested explanations as necessary, examined documents related to the approval of important matters, and investigated the condition of operations and finances in EBARA's Head Office and major business locations. Furthermore, regarding subsidiaries, the Audit Committee communicated with the Directors, Audit & Supervisory Board Members, and others in these subsidiaries, worked to exchange information, and, as necessary, received reports from these companies.

(ii) The Audit Committee ensured whether the Independent Auditors maintained its independent status and conducted its auditing activities appropriately. The Audit Committee received reports from the Independent Auditors regarding the performance of its duties and results of the audits, and requested explanations as necessary. In addition, the Audit Committee was informed by the Independent Auditors that the "system to ensure proper execution of its duties" (matters described in each item of Article 131 of the Regulations on Corporate Accounting) has been developed in accordance with "Quality Control Standards for Audits" (Business Accounting Council, October 28, 2005) and others, asking for details when necessary.

Based on the previously described methods, the Audit Committee considered the business report and appended documents, the non-consolidated financial statements (non-consolidated balance sheet, non-consolidated statement of income, non-consolidated statement of changes in net assets, and the notes to the non-consolidated financial statements), and the annexed detailed statement, as well as the consolidated financial statements (consolidated balance sheet, consolidated statement of income, consolidated statement of changes in net assets and the notes to the consolidated financial statements).

2. Results of the Audit

(1) Results of the Audit of the Business Report and other Documents

i. In our opinion, the Business Report and the Appended Documents have been prepared in accordance with relevant laws and EBARA's Articles of Incorporation and present the condition of EBARA fairly.

ii. We found no instances of improper behavior in the conduct of duties by the Directors and Executive Officers and no major facts regarding violations of laws or the Articles of Incorporation.

iii. We found the content of decisions made by the Board of Directors regarding internal control systems to be appropriate. Moreover, no notable matters were found with regard to the content of the business report and the execution of duties by the Directors and Executive Officers related to such internal control systems.

(2) Results of the Audit of the Non-Consolidated Financial Statements and the Annexed Detailed Statement

We found the methods used and the results of the audit conducted by the Independent Auditors, Ernst & Young ShinNihon LLC, to be appropriate.

(3) Results of the Audit of the Consolidated Financial Statements

We found the methods used and the results of the audit conducted by the Independent Auditors, Ernst & Young ShinNihon LLC, to be appropriate.

March 6, 2023

The Audit Committee of EBARA CORPORATION
Masahiro Hashimoto, Audit Committee Member
Hisae Kitayama, Audit Committee Member
Akihiko Nagamine, Audit Committee Member

(Note) Audit Committee Members Masahiro Hashimoto and Hisae Kitayama are Independent Directors as provided by Article 2(xv) and Article 400(3) of the Companies Act.