

Ebara Corporation Second Quarter of FY2019 Earnings Conference Main Q&A

<Summary of Q&A during earnings summary conference held on August 9, 2019>

Second Quarter of FY2019 - FMS Business Results

Q: Tell us about the decline in orders for the CT business. What is the cause of the delay in new orders and when do you expect to see orders?

A: This is mainly due to postponements in the USA and China. There are two main causes.

The first is due to the price of crude oil dropping below \$50/barrel in the fourth quarter of last year.

The second is due to the impact of US-China trade friction.

Due to the abovementioned factors, some orders were delayed until the second half of the year while others have been postponed until next fiscal year.

Q: Tell us about first half trends in orders received for CT business Service & Support (S&S).

A: Orders are largely unchanged year on year, which is on par with plans.

Q: What caused construction delays in the CT business?

A: Material deliveries were delayed due to the impact of US-China trade friction. This resulted in partial delays for products and S&S.

Second Quarter of FY2019 - PM Business Results

Q: Sales and operating income were 2.0 billion yen below plans. What caused the significant decline in operating income?

A: Aiming to capture future share, we are involved in next-generation and advanced technology development projects. The decrease in income is due to the increase in related expenses.

Q: Has business been impacted by the decline in customer plant operations?

A: As a result of the decline in operating rates, we are seeing reduced maintenance and delayed parts consumption.

Q: What is the current status of customers? Were investment plans postponed or canceled? How have conditions changed compared to three months prior?

A: We generally view these conditions as postponements but specifics on investment

timing are unknown.

Q: Why is market environment decline resulting in delays in the evaluation of development projects?

A: When developing new products, normally development is followed by market launch but a decline in market conditions can result in market launch delays. However, we continue development during that period so expenses will increase.

This is included in the negative 3.1 billion yen identified as a profitability factor in our analysis of changes in operating income.

Forecast for full-year FY2019 - Overall

Q: You changed your currency rate assumptions. What impact will this have on operating income?

A: For the FMS business, we conducted a downward revision of operating income plans by 0.5 billion yen. This reduction is due to currency factors.

Currency fluctuations will impact the PM business as well but we do not expect this impact to be significant.

Forecast for full-year FY2019 – FMS business

Q: First half operating income for the Pumps business exceeded plans so why are you maintaining your initial full-year forecast?

A: Because income was largely on par with targets.

Q: You revised your full-year sales targets for the CT business downward by 10.0 billion yen so why is the downward revision for operating income only the 0.5 billion yen due to currency factors?

A: The downward revision of 10.0 billion yen is attributable to products less profitable than S&S. This will have little impact on income.

Q: First half CT business operating income increased significantly year-on-year but you are planning on a significant decrease during the second half. Do you expect operating income to decline during the second half even though the first half S&S orders received were largely unchanged year-on-year?

A: For the second half, we are forecasting increased product sales and expect operating income to decline year-on-year due to currency factors.

(We reduced second half sales targets for products by 10.0 billion yen but this still will represent a year-on-year increase in product sales.)

Q: Why will CT business second half operating income increase more than during the first half?

A: Second half S&S net sales will increase because S&S order backlog increased at the end of June.

Q: First half CT business S&S accounted for 62.6% of net sales. Will the ratio of net sales exceed this level during the second half?

A: The increase in product sales will exceed the increase in S&S sales so the ratio of S&S in net sales will decrease compared to the first half.

Forecast for full-year FY2019 – PM business

Q: Why did you suddenly lower forecasts in the last three months? This would suggest you should have lowered targets during the first quarter. What changes occurred between April and June?

A: Around May, there was an increase in the number of customers reevaluating capital expenditure plans, causing postponements in investment timing.

Q: Second half targets for orders are largely unchanged from the first half. Is this because you expect to receive orders for postponed projects by December?

A: Second half targets include projections for projects for which orders appear likely.

Q: What factors caused you to conduct the downward revision of full-year operating income targets?

A: This reflects decreased sales and increased expenses related to development projects. Fixed expenses are being maintained to enable future share growth.

Q: You revised your targets for orders downward. Which regions do the downward revisions reflect? Also, which region will see a greater decrease, Japan or Asia?

A: The decrease will be greater in Asia because orders received in Asia comprise a larger percentage of orders.

Q: Comparing first and second half targets for orders, you expect components to decrease and CMP to increase. Why do you anticipate diverging trends?

A: Demand for CMP and other equipment is determined by the investment volume of each customer. This does not reflect overall industry trends. Instead, we anticipate certain investment activity so we forecast CMP will increase by 5.0 billion yen

compared to the first half.

Q: What are your thoughts on the opinion that the market will bottom out during the first half of next fiscal year?

A: We anticipate that will occur either during the first or second half of next fiscal year.

Other

Q: What are Ebara's objectives in forming the technology and business alliance with Teikoku Electric Manufacturing? What is the scope of annual sales you are forecasting?

A: We expanded our solutions for the petroleum and gas markets by adding products we did not possess. We will sell our pumps equipped with the canned motor produced by Teikoku Electric Manufacturing. We are forecasting sales of around 1.0 billion yen within two to three years.

Q: How should we evaluate the profit impact of your 50-year model concept in the Environmental Plants business? Do you have any specific goals for profit margin?

A: Major elements in the 50-year model concept are life-extending services (large-scale renovations) and long-term, comprehensive service. With life extension, it is critical that customers understand the benefits but this model is highly profitable. Long-term, comprehensive service involves providing stable operations and management services for the long-term period of nearly 20 years. This aspect of the model can achieve profitability by creating and implementing an efficient maintenance plan. By promoting the 50-year model concept among customers, we can achieve profitability for the Environmental Plants business. As for specific goals, we plan to outline details in our new medium-term management plan we intend to publish next year.