

Notice Regarding the Formulation of E-Plan 2019

EBARA CORPORATION (“the Company”) announces that it has formulated “E-Plan 2019,” the Medium-Term Management Plan for the period from FY2017 to FY2019, as per the following.

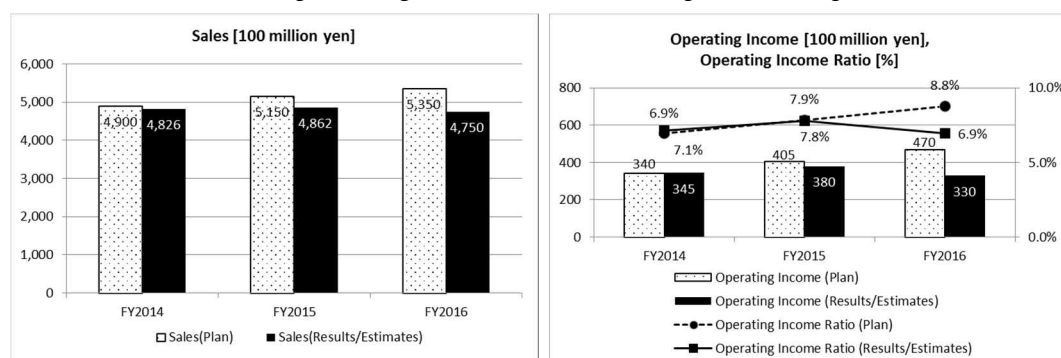
1 . Overview of the previous Medium-Term Management Plan (E-Plan 2016)

Upon positioning the period of E-Plan 2016 as a “turning point in which it will explicitly steer a course from the current stage of ‘reinforcement of the management foundation’ to a stage of ‘growth,’” and focusing on quantity (sales) in the overseas markets and quality (operating income) in the domestic market, the Company through the flexible and focused utilization of both internal and external resources implemented measures in each business to realize change and accelerate growth in a timely manner. As a result, the Environmental Plants Business and Precision Machinery Business continue to practice solid business management to the extent of exceeding their targets for sales and operating income. Meanwhile, in the Fluid Machinery and Systems Business, sales and the operating income have fallen short of the targets, due to such external factors as the postponement of orders and investment decisions by our customers in conjunction with the major fall in crude oil prices, which began from the latter half of 2014, the slowdown in demand reflecting the sluggish growth of the Chinese economy, and the prolonged deflation of the domestic economy, as well as internal factors including the delays in the progress of the measures implemented by each business. Due to the targets being unmet in the Fluid Machinery and Systems Business, the targets which were expected to be achieved by the Company as a whole are also expected to remain unmet.

Table 1: Targets to be achieved under E-Plan 2016 and achievement status

| Targets to be achieved | FY2014 Results | FY2015 Results | FY2016 Estimates | FY2016 Targets |
|------------------------|----------------|----------------|------------------|----------------|
| ROIC | 6.9% | 4.8% | 5.2% | 7.0% or more |
| D/E ratio | 0.5 | 0.5 | 0.35 | 0.4~0.6 |
| ROE | 10.5% | 7.2% | 7.5% | 11%~12% |
| Operating income ratio | 7.1% | 7.8% | 6.9% | 8.0% or more |

Graph 1: Progress on the E-Plan 2016 performance plan



Note. The estimates for FY2016 are estimates as of February 8, 2017 and this announcement is not intended as a disclosure of new information .

2. The positioning of E-Plan 2019

E-Plan 2019 sets forth the basic policies and major measures during the period of this plan for achieving the following Management Policy (Formulated in September 2015) by the early 2020’s. Keeping in mind the conclusions from the overview of E-Plan 2016, in particular, the fact that improvement in profitability in the Fluid Machinery and Systems Business was insufficient, the

Company hopes that by the completion of E-Plan 2019 it will have further developed as a manufacturer of industrial machinery that grows and develops its business on a global basis. To this end, the Company aims to thoroughly improve profitability in all business and designates the period covered by E-Plan 2019 as the period to engage in the “unlimited challenge toward growth”

The vision of the Management Plan (Formulated in September 2015)

- The Company recognizes that consolidated sales of 500 billion yen constitute the minimum level required to continuously develop its businesses on a global basis and grow.
- In addition to the organic growth of its existing business resources, the Company has positioned mergers and acquisitions of businesses of a certain scale at the center of its growth strategy.
- The Company will achieve the organic growth of its existing business resources by increasing its presence around the world and by expanding its stock-type business.
- The Company will make continuous investments in production facilities and investments for new product development and the improvement of existing products in order to improve its product competitiveness.

3 . Assumptions in the Formulation of E-Plan 2019

There is no doubt that the demand for each Company product will grow in conjunction with the growth in GDP and the rise in living standards through economic development of the countries of the world. Hence, while the markets may fluctuate in the short-term due to the impact of the global economy, the Company assumes that growth can be expected in the long-term for each business.

Meanwhile, given that major changes in the market environment which was assumed by the Pumps Business and the Compressors and Turbines Business were a factor in the numerical targets not being met under E-Plan 2016, in E-Plan 2019 a certain level of risk will be incorporated into the market growth of each business and plans will be formulated that are not dependent on sales growth. In addition, assuming exchange rate of 1 USD is 105 JPY.

4. Basic Group Policies of the New Medium-Term Management Plan (E-Plan 2019)

4-1. Basic Group Policies

Keeping in mind the conclusions from the Overview of E-Plan 2016 and the assumptions for the formulation of E-Plan 2019, the following shall be set forth as the Basic Group Policies of E-Plan 2019 towards achieving the Management Plan.

1. Solidify the profit foundation of the Group so that it does not rely on market fluctuations, and aim for further growth.
 - 1) We will seek steady growth and improved profitability in business which is expected to generate stable growth and profits in the global markets.
 - 2) We will conduct reforms of the business structure so that stable profits can be generated even at the bottom of the market in business which is highly susceptible to market fluctuations.
2. Strengthen product competitiveness and improve profitability by introducing innovative production processes and business processes with the fully-automated plant at the core.
 - 1) By extensively adopting IoT, AI and robotic technology, we will dramatically increase production efficiency and launch fully-automated production plants in the Standard Pumps and Precision Machinery Businesses. Furthermore, we will completely transform business processes including sales, the supply chain and service & support (S&S) business, with the fully-automated production plants at the core.
 - 2) Upon narrowing down existing models, we will re-examine the design, production and supply chain processes and shorten product lead time and reduce manufacturing costs.
 - 3) By re-examining the conventional business processes and transforming them into business management and business system that integrate order receipts, production, sales and S&S business, we will dramatically improve operational efficiency and reduce fixed costs.

- 4) Upon clarifying the targeted markets, we will launch new products that steadily reflect customer needs and utilize the innovative production processes in a timely manner.
3. Expand the Service & Support (S&S) business to improve and stabilize profitability.
 - 1) We will continue to increase service bases and reinforce their base functions in an effort to expand the S&S business, while at the same time develop and launch new services that incorporate new technology such as IoT and AI.
 - 2) We will improve and stabilize profitability by increasing the percentage of sales/operating income of the S&S business to total sales/operating income, particularly in business which is highly susceptible to market fluctuations
4. Utilize M&As as effective means, in business which is expected to generate stable growth and profits, for the purpose of increasing the Group's share in the overseas markets and enhancing product lineup; and in business which is highly susceptible to market fluctuations, for the purpose of expanding the domain of the S&S business.
5. In order to shore up the global expansion of each business, reinforce corporate headquarters' strategic functions while at the same time make Groupwide efforts to consolidate ongoing operations and enhance their efficiency.

4-2. Targets to be achieved

- 1) We will set and make efforts to improve groupwide Return on Invested Capital (ROIC)* as a key management indicator. We will aim for a ROIC of 8% or more in FY2019.

*Return on Invested Capital (ROIC) = Net Income / Invested Capital

Invested Capital = Interest-bearing Debt + Shareholders' Equity

- 2) In order to achieve a ROIC of 8.0% companywide, each business will set and make efforts to maximize operating income ratio as a key management indicator to assess business execution. We will aim for an operating income ratio target of 9.0% or more for the entire Group in FY2019. Each business (consolidated) will aim for the following targets.

| | |
|---------------------------------------|------------------------|
| Fluid Machinery and Systems Business: | <u>8.5% or more</u> |
| Pumps Business | : <u>8.0% or more</u> |
| Compressors and Turbines Business: | <u>11.0% or more</u> |
| Chillers Business | : <u>7.0% or more</u> |
| Environmental Plants Business | : <u>11.0% or more</u> |
| Precision Machinery Business | : <u>12.0% or more</u> |

- 3) The target for consolidated external sales will be 500 billion yen or more.
- 4) 60 billion yen will be allocated to capital investments; 10 billion yen to external investments and loans; and 35 billion yen to research and development. Growth investments during the E-Plan 2019 will focus on investments that will lead to strengthening product competitiveness, and allocated mainly to the fully-automated production plants of Standard Pumps and Precision Machinery businesses, as well as to M&As in the Pumps and Compressors and Turbines businesses.
- 5) We will improve current shareholder returns (dividends and share buybacks) and aim for a consolidated total payout ratio of 30% or more.

5 . Basic Policies of E-Plan 2019 per Business

The basic policies of each business in implementing the Basic Group Policy shall be as follows.

5-1. Fluid Machinery & Systems Business

Pumps Business

Standard Pumps Business

Given that the Standard Pumps Business is less susceptible to market fluctuations in the global market, it will be positioned as the profit base of the Pumps Business. Upon improving profitability through reforms on the business structure of the domestic business, we will aim for growth on the global markets and set forth the following as our basic policy.

- 1) We will continue to eliminate and integrate extant models, and reduce administrative costs, while at the same time shorten product lead time and reduce manufacturing costs.
- 2) We will fundamentally revise the conventional production system. By establishing an automated production line through the utilization of IoT, AI and robotics as well as shortening product lead time and reducing manufacturing costs, we will strengthen product competitiveness.
- 3) We will fundamentally change the business systems of production and sales and enhance operational efficiency.
- 4) We will continuously launch new products that will be sold globally as well as new products that reflect specific regional needs.

Custom Pumps Business

Given that the Custom Pumps Business is a business susceptible to market fluctuations, particularly from the oil and gas markets, we will conduct structural reforms on the domestic production system so that profits will be generated even at the bottom of the market. Furthermore, we will aim to improve profitability by expanding the domestic and overseas S&S business and through the expansion of the products business intended for the public sector in Japan and set forth the following as our basic policy.

- 1) We will re-examine our domestic production system, and transform our production system into a flexible system that will generate stable income even if current market conditions prevail, and will also allow us to increase production once the market recovers.
- 2) By renewing our production system and standardizing our products, we will shorten product lead time and reduce manufacturing costs.
- 3) In order to expand the overseas S&S business, we will enhance our sales and technology support system in the local regions closer to our customers.

Compressors and Turbines Business

While our ultimate goal is to establish our position in the world's top three in the compressors market for oil and gas by the early 2020's, and maintain the No.1 position in the downstream market, during the period of E-Plan 2019, we will aim to improve the profitability of the products business and expand the S&S business so that we will be able to generate a certain level of profits even if the current conditions of low crude oil prices should continue, and set forth the following as our basic policy.

- 1) In addition to ensuring and strengthening our competitiveness in the existing markets, we will seek to enter new segments and markets through M&As and proprietary development.
- 2) We will thoroughly improve the profitability of the products and S&S businesses.
- 3) We will deepen the integration of global management in order to overcome international competition.

Chillers Business

In the China business, we will aim to expand our market share, and in our domestic business, we will undergo transition to a highly-profitable structure, and set forth the following as our basic policy.

- 1) In the Chinese market, we will designate centrifugal chillers and cooling towers as the most important models, and we will develop and increase sales of competitive products.
- 2) In the domestic market, we will steadily maintain the S&S business of chillers, and expand the S&S business to cooling towers which promise growth.
- 3) We will promptly establish bases and build production/sales/service systems in order to expand our business to countries other than Japan and China.

5-2. Environmental Plants Business

We will continue to aim for stable growth and improved profits mainly in the domestic O&M business (public infrastructure services) which primarily caters to public sector entities, and set forth the following as our basic policy.

- 1) We will fully develop business management and profit/loss management through deepening and change.
- 2) We will shore up our domestic customer base and strengthen the presence of our domestic O&M business.
- 3) We will ensure the sustained growth of the new electric power business while at the same time proactively incorporate the biomass power generation facility market into our business.

5-3. Precision Machinery Business

Upon securing an operating income ratio exceeding the average operating income ratio for the period of the E-Plan 2019 by the early 2020's, we will create new businesses and new products that will become the third pillar as well as establish a business base to ensure sustainable growth for 2020 and beyond when semiconductor-manufacturing technology will reach a turning point, and set forth the following as our basic policy.

- 1) We will enhance production efficiency and business efficiency by promoting automation, and strengthen our competitiveness by shortening product lead time and reducing costs.
- 2) We will increase sales from the equipment group centering on plating equipment, which is slated to become the third pillar, mainly in the packaging process.
- 3) We will utilize the open innovation policy, seek out demand for new semiconductor manufacturing technology, and engage in development for commercialization.
- 4) We will expand and stabilize existing businesses, while at the same time reinforce the global strategies of each business.

5-4. Companywide Initiatives

As part of our efforts to carry out the “unlimited challenge toward growth” we will transform our corporate culture into one that is competitive and challenging, and to this end we will change the personnel system of our Company and major domestic subsidiaries and by abolishing the seniority system revitalize promotions as well as thoroughly enforce ability- and performance-based systems, while, in terms of the organization, we will enlarge and flatten each structure, so that the number of organizations are halved and the organization is run efficiently.

Notes:

1. This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.
2. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.