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Notice Regarding the Formulation of EBARA's Long-term Vision and Medium-term Management Plan

EBARA CORPORATION (“the Company”) announces our Long-term Vision: E-Vision 2030, which establishes a vision and path for 10 years from fiscal year (FY) 2020, simultaneously with our new Medium-term Management Plan: E-Plan 2022, for the period from FY2020 to FY2022. Please find the overview of these two management policies below. Further details will be released on our website on February 13.

I. Introduction of Long-term Vision: E-Vision 2030

We have been able to support society and contribute to the resolution of social issues through our over 108 year-history, because customers have chosen us for our reliability, technological capabilities, and continuing spirit of “Passion and Dedication.” Looking ahead at the next 100 years of human civilization and the global environment, we can foresee numerous challenges facing humanity such as, abnormal weather and natural disasters intensifying due to climate change, storm surges due to rising sea levels, land erosion, and depletion of food and water resources. In addition, the technologies of the information age are expected to evolve even further, pushing the limits of semiconductors and semiconductor manufacturing technologies and bringing drastic change to current lifestyles and the digital world. In these relatively unstable and difficult to read circumstances, we have a responsibility to indicate our vision, policies and strategies for the future, and we have done so within “E-Vision 2030.”

A. Key Message and Material Issues (Materiality) of E-Vision 2030

We have identified five material issues (EBARA's materiality) with our key message for 2030 of: “Technology. Passion. Support our globe,” in mind. The material issues are as follows:

1. Contribute to the creation of a sustainable society

We will utilize our technologies to passionately support the creation of a sustainable, environmentally-friendly world with ample food and water, and safe and reliable social infrastructure.

2. Elevate standards of living and support abundant lifestyles for all

We will utilize our technologies to passionately support economic development that enables the world to end poverty and realize ever-evolving and abundant lifestyles.

3. Conduct comprehensive environmental management

We will promote the reduction of CO₂ emissions from our business operations and maximizing our use of renewable energy to move toward a carbon-neutral world.

4. Promote working environments that encourage challenge

We will promote a corporate group culture of competition and challenge, and provide diverse employees with meaningful work and comfortable working environments.

5. Enhance corporate governance

We will lay out a vision for and pursue growth through offensive and defensive governance that supports high-level management capabilities.

B. 10-Year Vision

We aim to further our contributions toward the SDGs through the pursuit of solutions to our identified material issues to contribute to the creation of a sustainable society, while simultaneously increasing the (1) social/environmental value and (2) economic value we generate. We believe this will earn us greater corporate value and recognition as an excellent global company. We have set market capitalization of 1 trillion yen by 2030, as an indicator of our corporate value.

Representative examples of outcome goals

(1) Social/Environmental Value

- Reduce GHG emissions by the equivalent of about 100 million tons of CO₂
- Deliver water to 600 million people
- Contribute to smarter living by challenging the 14Å (angstrom, 1/10 billionth) generation, state-of-the-art semiconductor devices.

(2) Economic Value

- ROIC over 10.0%
- Roughly 1 trillion yen in sales

II. Introduction of Medium-term Management Plan: E-Plan 2022

The Medium-term Management Plan: E-Plan 2022, was created by reviewing and clarifying issues that remained from the previous medium-term management plan, in addition to backcasting of the kinds of issues we must face to achieve our Long-term Vision: E-Vision 2030.

A. Review of Previous Medium-term Management Plan: E-Plan 2019

E-Plan 2019 aimed to thoroughly improve the profitability of all businesses to allow the Company to further develop into an industrial machinery manufacturer that expands and grows business on a global scale. The key message of this period was, “Unlimited Challenge toward Growth,” and each business segment implemented various measures in pursuit of this goal.

Table 1. E-Plan 2019 Status of Management Indicators

| Management Indicators | FY ended Mar. 31, 2017 | E-Plan 2019 | | | | |
|---|------------------------|-------------------------|------------|------------|--------------|--------------------------|
| | | FY ended Dec. 31, 2017* | FY2018 | FY2019 | 3-year Total | Target |
| ROIC | 5.6% | 2.5% | 4.9% | 6.5% | - | 8.0% or more |
| Operating income to sales ratio | 6.3% | 4.7% | 6.4% | 6.8% | - | 9.0% or more |
| ROE | 8.0% | 3.5% | 6.6% | 8.3% | - | 11.0-13.0% |
| Debt-to-Equity Ratio | 0.36 times | 0.41 times | 0.28 times | 0.29 times | - | 0.4-0.6 times |
| CAPEX (billions of yen) | 22.6 | 12.3 | 19.3 | 34.3 | 66.1 | 60.0 billion yen or more |
| R&D (billions of yen) | 8.7 | 7.2 | 10.6 | 11.5 | 29.4 | 35.0 billion yen or more |
| M&A | - | 1 | - | - | 1 | 10.0 billion yen |
| Consolidated Total Return Ratio | 28.1% | 48.0% | 60.5% | 88.8% | - | 30% or more |
| Share Repurchase (billions of yen) | - | - | 5.0 | 15.0 | 20.0 | Agile implementation |

*Fiscal year ended December 31, 2017 is an irregular nine-month period.

- (1) We did not meet either of the key performance indicator targets set for E-Plan 2019. This was mainly due to our too-optimistic market outlook, especially regarding the oil and gas market recovery, and insufficient business structure transformation to strengthen our revenue base.
- (2) Investment was generally conducted according to plan, but we do not expect to feel beneficial effects until after 2020.
- (3) We repurchased shares for the first time and greatly exceeded our target total return ratio.
- (4) Regarding ESG-focused management, we implemented many governance improvement-related measures.

Three main issues remain from E-Plan 2019. These are: (1) strengthening of the revenue base, (2) the enhancement of service and support (S&S), and (3) the creation of new businesses. We have been able to improve the revenue base gradually, through measures such as consolidating the cryogenic pump business into the compressors and turbines business, where overlapping customers and similar business models allow for greater profitability and expanded S&S operations. However, the strengthening of the revenue base remains an issue, and we will continue to implement measures to create further synergy between businesses during the E-Plan 2022 period.

B. E-Plan 2022 Basic Policies

We have positioned E-Plan 2022 as the time to “Reconstruct the foundations of growth,” and lay out the following four basic policies to be implemented in the next three years. In the interest of optimizing our business portfolio, we took care to clearly divide our business segments into “growth investment” businesses; businesses that we anticipate to have continued growth potential, and “improve profitability” businesses; business segments that operate in mature markets or that are having problems with profitability. We will pursue aggressive business-segment specific strategies in accordance with their status. The four basic policies are as follows:

- (1) Strive for growth
Create and cultivate new businesses and expand existing businesses further into the global market.
- (2) Improve profitability of existing businesses
Transform business structures to strengthen revenue base and increase S&S sales in all businesses.
- (3) Refine management and business infrastructure
Proactively implement digital transformation (DX) technologies to facilitate swifter management and further emphasize ROIC management.
- (4) Enhance ESG-focused management
Address evolving environmental issues, foster bonds with society, and enhance governance practices.

C. E-Plan 2022 Management Strategies

Based on the basic policies above, we have set the following E-Plan 2022 management strategies and will formulate and implement plans for each business in accordance with the details indicated below.

- (1) New business
Aim to identify global needs from a market-in approach, and match internal and external technologies/know-how with market needs to create viable new businesses.
- (2) Existing businesses
Enhance S&S business by improving synergy among business segments, and execute aggressive business segment-specific strategies.
- (3) Regional strategy
Maximize revenue through initiatives tailored to regional markets mainly in China, India and Africa.
- (4) Strengthen capitals
Evolve and strengthen the six capitals (human, manufacturing, financial, intellectual, social & relationship, natural) required for business growth to better invest in adaptations to the changing business environment and global business expansion.
- (5) Refine ESG-focused management
In the interest of our sustainable growth we will take aim at environmental issues, foster bonds with society, and enhance corporate governance.

D. E-Plan 2022 Numerical Targets

We have positioned ROIC and operating income to sales ratio for the entire Group as our key performance indicators, and aim to achieve ROIC of 8.0% or higher and an operating income to sales ratio of 8.5% or higher by FY2022, the final year of the plan.

Table 2. E-Plan 2022 Numerical Targets

| Key Performance Indicators (KPI) | Targets (FY22) |
|----------------------------------|----------------|
| ROIC | 8.0% or more |
| Operating Income to Sales Ratio | 8.5% or more |

| Target Achievement Indicators | Targets (FY22) |
|--------------------------------------|----------------|
| ROE | 11.0% or more |
| Debt-to-Equity Ratio | 0.3-0.5 times |
| (Operating Income Ratio by Business) | |
| Fluid Machinery & Systems Business | 7.0% or more |
| Pumps Business | 6.5% or more |
| Compressors and Turbines Business | 8.0% or more |
| Chillers Business | 5.0% or more |
| Environmental Plants Business | 9.5% or more |
| Precision Machinery Business | 13.0% or more |

| Growth Investment | Targets (3-year Total) |
|--------------------|-------------------------|
| Capital Investment | About 100.0 billion yen |
| R&D | About 40.0 billion yen |

| Shareholder Returns | Targets |
|---|--------------|
| Consolidated Dividend Payout Ratio | 35% or more |
| Consolidated Dividend on Equity Ratio (DOE) | 2.0% or more |

E. E-Plan 2022 Business Segment-specific Basic Policies

1. Fluid Machinery & Systems Business

a) Standard Pumps

In the domestic business, improving profitability is the most pressing issue. In light of this, we will pursue a business structure that further advances operational efficiency and labor saving, bring high value-added products to market, and strengthen S&S structures. In the overseas business, expanding the scale of our business to increase sales is our top priority. To this end, we will bring products that meet local needs to market by expanding sales bases and enhancing development systems. Additionally, we will strengthen marketing functions and our global supply chain management. Finally, we will integrate pumps, motors, and control technologies to develop energy efficient, miniaturized, lighter, and smarter products and systems, and shift to a solution-provider business model.

b) Custom Pumps

In Japan, we will prioritize improving profitability. We will identify target markets, improve the profitability of our products, and expand the scale of our S&S capabilities. In the public pumps market, by strengthening comprehensive evaluation-based bidding, we will contribute to the construction, maintenance, and management of safe and secure social infrastructure in response to intensifying natural disasters.

Outside of Japan, we will focus on improving production and supply chain management functions to enhance product competitiveness (price and delivery time) to capture demand that differs by region, and will further develop products that respond to new markets.

c) Compressors and Turbines

We will give first priority to achieving acceptable levels of profit in regard to our products. In pursuit of this, we will optimize the scale of our sales and production. Meanwhile, regarding S&S, we will increase our share of the market for existing products and expand the scale of our business, through such measures as M&A, etc.

d) Chillers

In the domestic business, we will improve product profitability, expand S&S, and transform into a sustainable, highly profitable business structure. In China, we will continue to improve the price competitiveness of our products, broaden sales channels, and increase our market share in existing markets.

2. Environmental Plants Business

We aim to expand our business to become a “total waste resource recycling solution provider” by 2030. In line with this, we will preserve the integrated waste treatment facility construction and operation business, which primarily services local governments with engineering, procurement, and construction to operation of municipal waste treatment plants, as the core of our business, as well as pursue new avenues of business, such as the introduction of automation technologies utilizing AI/ICT, the advancement of chemical recycling technologies, and other measures that contribute to the creation of a circular economy.

3. Precision Machinery Business

We will expand our market share in existing markets by shifting from a single hardware manufacturer to a solutions provider that provides related products and services. By lowering the break-even point through more efficient production processes, such as through the advancement of automated plants, etc., and improving the S&S sales ratio, we will increase our ability to generate profits that are essential for business continuity in an industry characterized by volatile market conditions. We will simultaneously pursue the creation of new businesses.