Progress and Growth Strategies of the E-Plan2016 Medium-Term Management Plan

E-Plan2016

The EBARA Group will pursue higher corporate value by ensuring the accomplishment of the targets of its E-Plan2016 medium-term management plan.

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President, Representative Executive Officer

The EBARA Group launched its E-Plan2016 medium-term management in the fiscal year ended March 31, 2015. In this section, we will explain the successes achieved and issues uncovered during the first year of this plan as well as the initiatives to be implemented during the plan's second and third years.

Operating Environment and Performance Overview

During the first half of the fiscal year ended March 31, 2015, the domestic economy suffered from sluggish consumer spending as a result of the consumption tax hike. In addition, demand recovery was delayed in housing construction and other segments of the private sector, while investment levels were low in the public sector. In the second half of year, however, a modest but continual recovery trend began in both the private and public sectors. Overseas, meanwhile, a rise in the number of people finding employment coupled with a decline in the unemployment rate resulted in a strong economic recovery trend in the United States, and improvements in economic conditions were also witnessed in several European countries. The Asian economy as well continued to show gradual overall growth, despite an economic slowdown in certain countries.

The impacts of these domestic and overseas economic trends on the Group's business activities were more or less as expected. However, the drop in crude oil prices, which was particularly pronounced during the second half of the year, did have a notable effect on operations. Our compressors and turbines business was most heavily impacted, suffering from the delays and cancellations of certain projects. In this manner, a shadow of uncertainty was cast over some areas of the Group's operating environment. Nevertheless, net sales in the fiscal year ended March 31, 2015, were up 7.6% year on year, to ¥482.7 billion, and operating income increased 7.4%, to a new record high of ¥34.5 billion. These impressive results were due in part to the benefits of yen depreciation. Furthermore, the globalization of the Group's operations has steadily been creating results, and the overseas sales ratio rose 0.8 percentage point, to 53.6%, accordingly. It can therefore be said that a strong start was made in the first year of E-Plan2016.

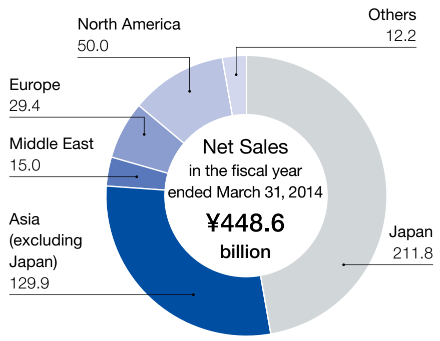
Summary of Fiscal Year Ended March 31, 2015

Billions of yen

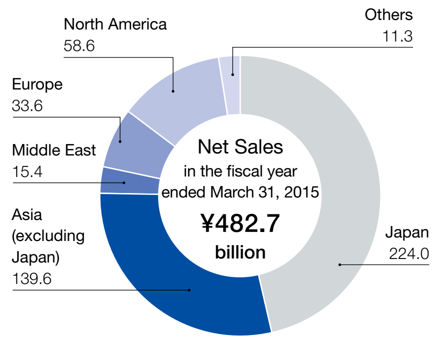
	2014	2015	Change
Orders	512.2	**487.5**	(24.7)
Net Sales	448.6	**482.7**	+34.0
Operating Income	32.1	**34.5**	+2.3
Net Income	18.9	**23.5**	+4.6

Net Sales Breakdown by Region

Billions of yen



Overseas Sales ¥236.7 billion
Overseas Sales Ratio 52.8%



Overseas Sales ¥258.6 billion
Overseas Sales Ratio 53.6%

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Progress of E-Plan2016

● Initiatives Guided by Basic Groupwide Policies

The EBARA Group has defined the medium-to-long-term goal of becoming a global top-tier manufacturer of industrial machinery. To accomplish this goal, we are advancing initiatives on a Groupwide basis guided by the basic policies of the E-Plan2016 medium-term management plan outlined in the table below.

While the markets addressed by the Group's business are being influenced by negative factors such as delays in customers' investment plans resulting from the aforementioned drop in crude oil prices, they are also benefiting from factors including yen depreciation. As such, these markets are continuing to display growth, particularly overseas. We view the current market climate as presenting favorable opportunities, especially given the strong demand for the products and services provided by the Group. Accordingly, we pushed forward with aggressive measures centered on the businesses of the Fluid Machinery & Systems (FMS) Company (pumps, compressors and turbines, and chillers), Environmental Engineering (EE) Company, and Precision Machinery (PM) Company during the first year of the medium-term management plan.

Fluid Machinery & Systems Company

In the pumps business, which represents the largest sector of operations in the FMS Company, we worked to establish footholds to be leveraged in achieving further growth. To this end, we rapidly developed products matched to customer needs and launched competitive products, developing and commercializing one core global product and releasing two regional products. We also established new overseas bases and expanded the functions of existing bases as we advanced the construction of a regional management system that encompasses all regions around the world. Steady progress is being made in this endeavor as, in the fiscal year ended March 31, 2015, we set up new bases in the Netherlands and Brazil in July and October 2014, respectively, as well as in Vietnam in January 2015. The ratio of overseas sales to net sales is an important indicator of performance in the pumps business. We have set the goal of raising this ratio to 45% or higher by the fiscal year ending March 31, 2017, the final year of E-Plan2016, a goal that had already been achieved as of March 31, 2015. We have also set the goal of growing service and support (S&S) sales to account for more than 30% of total net sales over the same period. However, product sales have been rising to a greater extent than service sales, stifling the growth of this S&S ratio. We will therefore continue working to expand S&S operations into the future.

In the compressors and turbines business, under E-Plan2016 we assumed that demand would grow and that we would be able to incorporate this demand growth and thereby increase orders for new products. However, this business proved to be heavily impacted by fluctuations in operating environment conditions, such as delayed projects and intensified competition stemming from the deterioration of business confidence in the oil and gas markets, which in turn was a result of the drop in crude oil prices. Consequently, orders received were down. Operating income, meanwhile, was in line with our forecasts due to the backing of our stable S&S business foundations. We continue to invest in S&S bases, and in the first quarter of the fiscal year ending March 31, 2016, operations commenced at the bases in China and India for which we laid the groundwork during the fiscal year under review. Furthermore, we took steps to enhance the facilities at production bases, with our efforts primarily being directed at upgrading aged equipment at bases in the United States.

In the chillers business, we selectively accepted orders in fields characterized by fierce price competition to ensure sufficient returns, while expanding our S&S lineup and diligently establishing overseas operating foundations.

Environmental Engineering Company

The EE Company sought to establish a stable earnings structure in the domestic engineering, procurement, and construction (EPC) field, where it primarily undertakes orders related to waste incinerating facilities. In this field, two facilities completed during the fiscal year ended March 31, 2015, were turned over to their owners, and we bolstered price competitiveness by developing an incinerator series and design bundles. In addition, the EE Company aggressively expanded the scope of duties it has been contracted to perform for existing facilities in the operating and maintenance (O&M) field, where it captured one long-term order. In regard to design, build, and operate (DBO) services, which encompass facility construction, management, and business operation, our initiatives progressed steadily and in line with initial forecasts, as exemplified by the acquisition of long-term comprehensive management and other new contracts.

Precision Machinery Company

In the PM Company, we have been advancing Companywide productivity innovation activities to establish a stable business structure that is resilient to the effects of the volatile investment environment for semiconductor equipment. Through these activities, we strove to shorten lead times, reduce costs, and improve profitability. We are also bolstering our human resource systems, particularly with regard to hiring, education, and placement, and have instituted other measures to ensure we can effectively take advantage of investment demand in semiconductor operations.

In this manner, measures are advancing steadily as planned in all businesses despite the presence of certain business-specific issues. In the fiscal year ending March 31, 2016, we will accelerate the advancement of these measures.

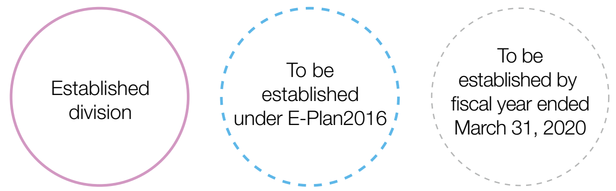
Basic Groupwide Policies

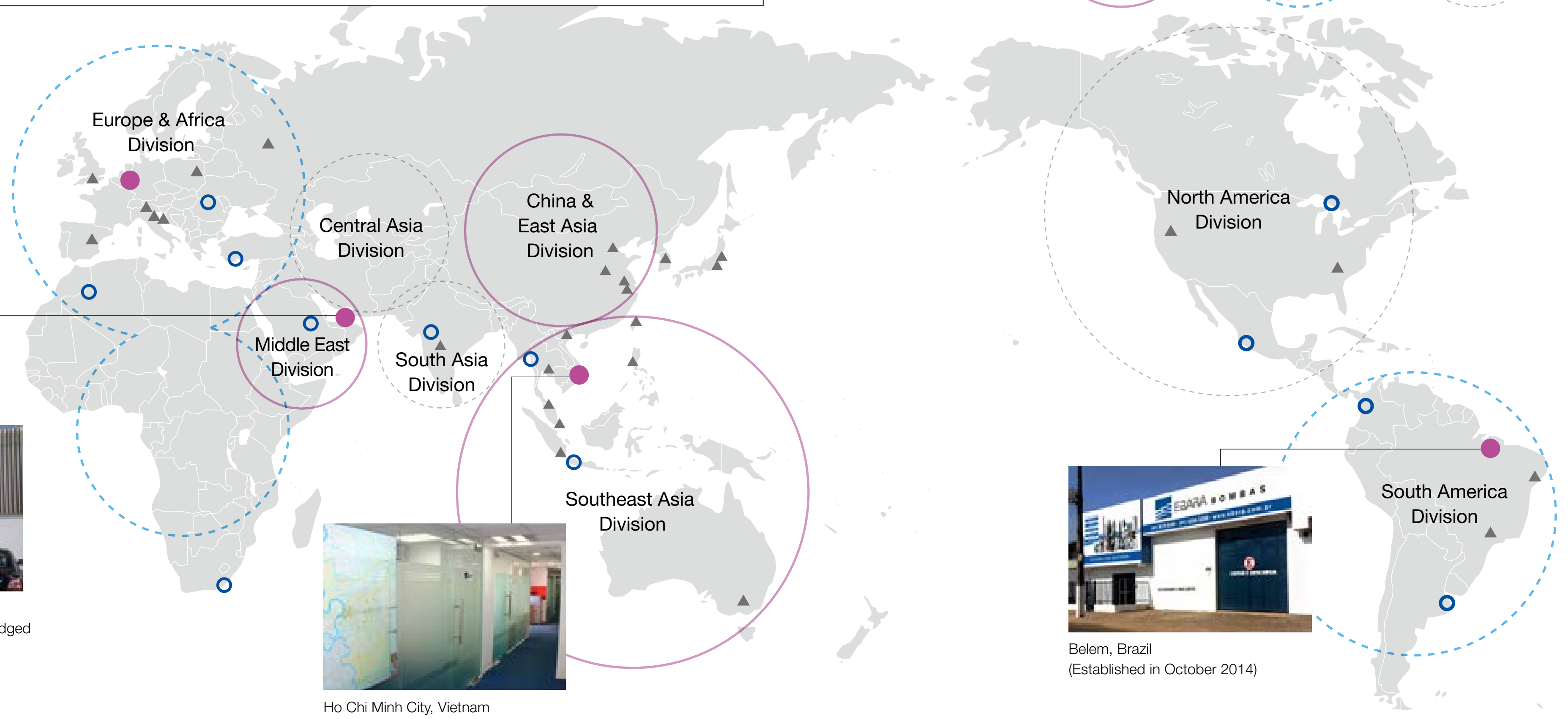
I. Ensure the Group's businesses steadily capture the demand arising from growth, particularly in the global markets
II. Become a service provider that targets the entire life cycle of the product / plant
III. Continuously enhance our core competence (technological capabilities) as an industrial machinery manufacturer
IV. Enhance the management infrastructure that supports global business expansion

Progress on strengthening overseas pumps business

Bases as of March 31, 2015, and new bases to be established by March 31, 2017

- New bases (results)
- New bases (plan)
- Existing base





Dubai, UAE
(Established in March 2014, full-fledged operations commenced in April)

Ho Chi Minh City, Vietnam
(Established in January 2015)

Belem, Brazil
(Established in October 2014)

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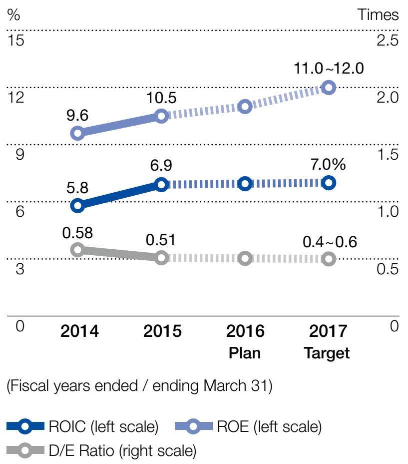
● Key Management Indicators

Return on invested capital (ROIC) has been positioned as a key management indicator in E-Plan2016, with the target of 7% or higher set for the fiscal year ending March 31, 2017, the final year of the plan. In the fiscal year under review, ROIC showed a year-on-year increase of 1.1 percentage points, rising to 6.9%, nearly meeting this target in the plan's first year. We aim to achieve the target for ROIC while striking a balance between financial stability and capital efficiency, and have thus positioned the debt-equity (D/E) ratio and return on equity (ROE) as important indicators to be considered by management, and we will pursue balanced improvements in both of these indicators going forward. In the final year of E-Plan 2016, we are targeting a D/E ratio of between 0.4 times and 0.6 times and ROE in the range of 11.0% to 12.0%. In the fiscal year ended March 31, 2015, smooth progress was made toward these targets, with the D/E ratio declining 0.07 times year on year, to 0.51 times, and ROE increasing 0.9 percentage point, to 10.5%.

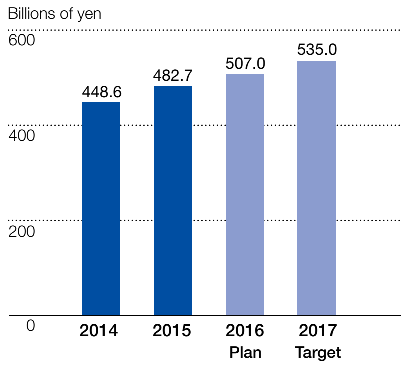
Furthermore, we recognize that achieving our ROIC goal will require increases in net income, which will also contribute to an improvement in ROE. For this reason, the operating income ratio has been defined as a key management indicator to assess business execution. This ratio was 7.2% in the fiscal year ended March 31, 2015.

Trend in Key Management Indicators



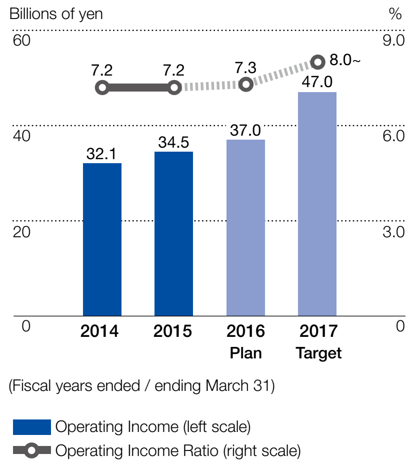
(Fiscal years ended / ending March 31)

Net Sales



(Fiscal years ended / ending March 31)

Operating Income / Operating Income Ratio



(Fiscal years ended / ending March 31)

Future Outlook and Measures

The fiscal year ending March 31, 2016, the second year of E-Plan2016, will be a crucial year to ensuring that our targets for the plan's final year are met.

The EBARA Group's operating environment is expected to experience modest economic recovery both in Japan and overseas. Conversely, though, the FMS Company will need to remain wary of the risks arising from political unrest in certain regions. This company will also continue to suffer from the ongoing decline in crude oil prices, which we expect to weigh particularly heavily on the compressors and turbines business. It is entirely possible that lower crude oil prices will cause the pace of growth to fall below our initial anticipations due to factors such as delays in customers making final investment decisions regarding new projects. However, this downward trend in crude oil prices is expected to be only a temporary phenomenon. Meanwhile, global energy demand has recently been rising centered on emerging countries. For this reason, the markets for liquefied natural gas (LNG), oil refining, and ethylene and other petrochemicals are expected grow over the medium-to-long term. While the operating environment remains uncertain, we have chosen not to make any significant revisions to our overall forecasts at this point in time. Going forward, each business will strengthen S&S foundations, create new business models linking sales with S&S, and steadily push forward with other measures aimed at achieving the goals of E-Plan2016.

The EE Company is steadily growing its business on the back of solid demand. We are working to capture numerous large-scale orders while pursuing improved efficiency as we advance existing projects. Through these efforts, we will strive to quickly accomplish the performance targets of E-Plan2016.

The PM Company is expected to benefit from a continually favorable semiconductor market. Particularly large sales improvements are anticipated for chemical mechanical polishing (CMP) systems operations, as a number of projects initially scheduled to be recorded during the fiscal year ended March 31, 2015, have been delayed until the fiscal year ending March 31, 2016. At the same time, we are endeavoring to construct stable earnings structures that are relatively unaffected by fluctuations in market conditions. To this end, we will continue developing products matched to customer needs, such as those for smaller equipment, while cultivating a product line that can stand alongside CMP systems and components as a third pillar of operations.

Improvement of Corporate Value

As previously explained, the EBARA Group is making smooth progress toward the accomplishment of the E-Plan2016 goals, and toward the vision for the kind of company it wants to be going forward.

The Group's ability to make such steady progress in the ever-changing operating environment is undoubtedly a result of its commitment to providing products that are universally applicable to customer industries.

In recent years, demand has been growing for social and industrial infrastructure, such as energy and water infrastructure and environment-related facilities, as well as for the highly efficient equipment, machinery, and systems needed to create this infrastructure. This trend can largely be attributed to population growth of emerging countries as well as higher living standards resulting from the economic development of these countries and to the aging of infrastructure in developed nations. We believe that the products and services offered by the EBARA Group offer the potential to address these social needs. In other words, the Group's social mission is to provide solutions for various social issues through its products and services. Accordingly, we will fulfill our corporate social responsibility during the course of our business activities.

At the same time, we realize that our technological capabilities and human resources are not only vital to the growth of the Group but also crucial to the sustainable development of society as a whole. Based on this realization, one of the basic Groupwide policies of E-Plan2016 calls on us to position technological capabilities as our core competence as an industrial machinery manufacturer and to continually strengthen these capabilities. We are advancing productivity innovation activities, through which we are optimizing our *monozukuri* (manufacturing) process while simultaneously pushing forward with proactive R&D ventures. With regard to human resources, we are committed to creating a workplace environment in which all employees can realize their full potential, regardless of gender or nationality. To facilitate these efforts, we established the Diversity Promotion Department in April 2015, and we are pushing forward with various measures to develop a workplace environment that respects the right of employees to seek a balance between their work life and their private life.

By carrying out our business activities with an eye toward the development of society, we are pursuing improved corporate value. Looking ahead, the EBARA Group will unite its efforts to advance various initiatives aimed at achieving further growth.