



# Becoming a global top-tier manufacturer of industrial machinery

**With a view to its medium-to-long-term goal, the EBARA Group will pursue organic growth and enhance management foundations to further improve corporate value.**

The EBARA Group is committed to continually supplying products as well as services to support these products throughout their life cycles in its three business domains.

Through these efforts, we aim to build stable, lasting relationships that are founded on trust with customers around the world to improve corporate value over the long term.

**Toichi Maeda**  
President, Representative Executive Officer

## Corporate Philosophy

**“We contribute to society through high-quality technologies and services relating to water, air, and the environment.”**

Since its establishment as a pump manufacturer in 1912, the EBARA Group has continued to advance research and development of products matched to society's needs, expanding its business domains through the sale of these products. Today, the Group is a conglomerate of its three core businesses: the mainstay Fluid Machinery & Systems Business, which supplies pumps, compressors, and other rotating machinery; the Environmental Engineering Business, which handles environment-related plants; and the Precision Machinery Business, which produces and markets equipment and devices related to semiconductor manufacturing. Looking at these businesses, we see that pumps contribute to the effective utilization of water resources, environment-related plants help limit climate change, and semiconductor manufacturing equipment aids in the realization of a more comfortable information society. For these reasons, it could be said that we have expanded our business while going about resolving social issues and that we have therefore made wide-reaching contributions to social and industrial development.

The EBARA Group has continued to grow together with society for more than 100 years. In order for us to continue growing, achieving organic growth in each of our three business domains will be key.

While the structure of our operations differs in each business domain, the common thread that unites these operations is that they integrate every stage from marketing and other order acquisition activities to development, design, procurement, production, on-site installation, and post-delivery service and support (S&S). In these integrated operations, we aggressively expand into growth markets, actively supplying them with our products, while continually providing services to support these products throughout their life cycles. Through these efforts, we aim to build stable, lasting relationships that are founded on trust with customers around the world in order to improve corporate value over the long term.

Responding to the various needs of customers requires that we achieve organic growth with regard to existing business resources while also advancing production innovation and technology development in each of our businesses. Conducting ongoing investment, therefore, is a must. I am confident in our ability to continue to provide various services based on our unique and competitive products and our extensive track record.

As we forge ahead with our various initiatives for achieving sustainable growth and improving corporate value, we practice management geared toward realizing our vision of what we

want to become in the fiscal year ending March 31, 2020.

The realization of this vision will create a foothold for us in our quest to accomplish our long term goal of becoming a global top-tier manufacturer of industrial machinery. Furthermore, we have declared in our management policy that net sales of ¥500.0 billion is absolutely necessary to survive on the global market as an industrial machinery manufacturer. We realize that over the medium-to-long-term, organic growth alone will not be enough; we will also need to undertake M&A activities.

In addition, it will be essential for us to enhance corporate governance. Based on this belief, in June 2015 we adopted a Company with Three Committees system, effectively poising the Company for more aggressive expansion.

### Vision of what we want to become in the fiscal year ending March 31, 2020

1. In pursuing business development on a global scale, establish a high profit generating structure (operating income ratio of 12% or higher) that maximizes our global presence.
2. Solidify the position of all businesses in their respective business domains. In the pumps business, in particular, we will ensure our position as one of the world's top three pumps manufacturers.
3. Establish an environment that maximizes the capabilities of each employee, regardless of gender, nationality, or other factors, and adopt a system that properly rewards the exercise of such capabilities.

Established based on our vision of what we want to become, the three-year E-Plan2016 medium-term management plan has entered into its final year. The three years of this plan were defined as a period in which we will change course markedly from a stage of reinforcing management foundations to one of growth. Throughout this period, we have emphasized operating income in the domestic market and net sales in overseas markets as we utilized internal and external resources in a flexible and concentrated manner to swiftly bring about change and accelerate growth. By March 31, 2017, I hope that by advancing these efforts, we will be able to reach a vantage point from which we can clearly see the path toward our vision of what we want to become in the fiscal year ending March 31, 2020.

## Progress of E-Plan2016

### E-Plan2016 Basic Groupwide Policies

Under E-Plan2016, the EBARA Group is advancing initiatives on a Groupwide basis guided by the following basic policies.

#### Basic Groupwide Policies

- I. Ensure the Group's businesses steadily capture demand arising from growth, particularly in 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

### Overview of Performance in the Fiscal Year Ended March 31, 2016

In the fiscal year ended March 31, 2016, the operating environment for the EBARA Group was uncertain. Factors contributing to this outlook included ongoing delays in investment decisions by customers in oil and gas markets—a result of the decline in the price of crude oil—as well as market contraction in China following the economic slowdown. Conversely, the capital expenditure appetite of customers in the semiconductor market was robust. As a result, overall orders increased

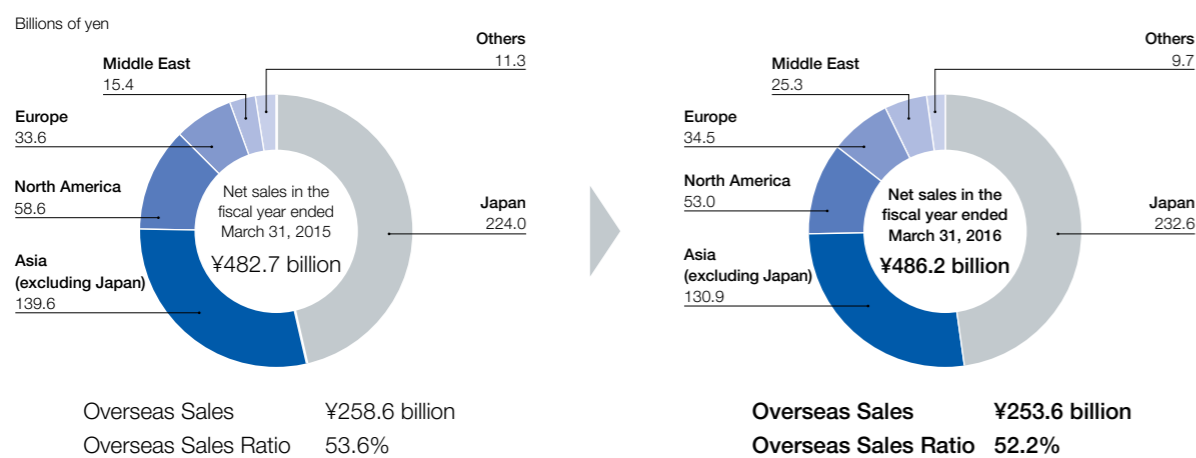
¥3.7 billion year on year, to ¥491.2 billion, and net sales were similarly up ¥3.5 billion, to ¥486.2 billion. Operating income rose ¥3.4 billion, climbing to a new record high of ¥38.0 billion, due to a substantial rise in income in the Precision Machinery (PM) Business. The overseas sales ratio was down 1.4 percentage points, to 52.2%, stemming from increased domestic sales and foreign exchange influences.

#### Summary of Fiscal Year Ended March 31, 2016

	2015	2016	Change
Orders	487.5	491.2	+3.7
Net Sales	482.7	486.2	+3.5
Operating Income	34.5	38.0	+3.4
Profit Attributable to Owners of Parent*	23.5	17.2	-6.3

\* The figure for the fiscal year ended March 31, 2015, represents net income.

#### Net Sales Breakdown by Region



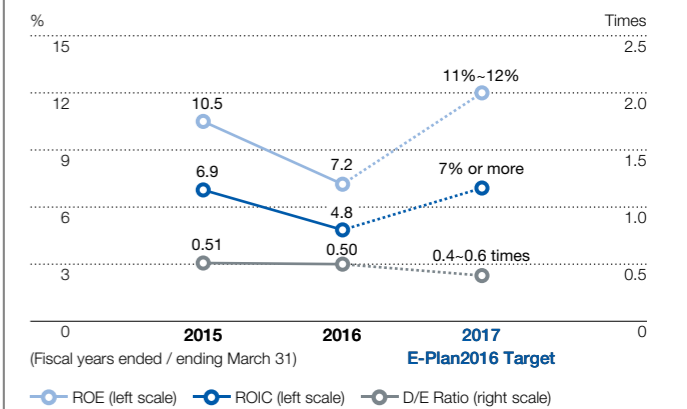
**With regard to the operating income ratio—a key management indicator for assessing business execution—we have placed the goal of 8% for this margin set for the final year of E-Plan2016 within reach. However, we failed to achieve the targets put forth for net sales and operating income, leaving issues that need to be resolved.**

#### Key Management Indicators

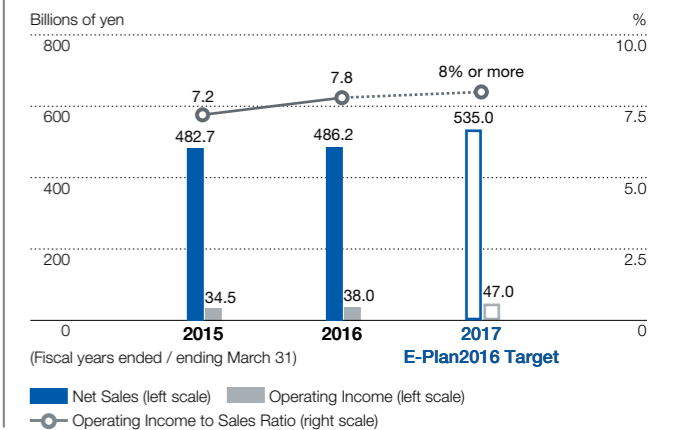
Return on invested capital (ROIC) has been positioned as a key management indicator, and we have set a target of 7% or higher for the fiscal year ending March 31, 2017, the final year of E-Plan2016. In the fiscal year under review, the second year of the plan, ROIC decreased to 4.8% due to the recording of extraordinary loss related to litigations.

Conversely, the operating income ratio—a key management indicator for assessing business execution—rose to 7.8% due in part to the favorable performance of the PM Business. Such progress has placed the goal of 8% for this margin set for the final year of E-Plan2016 within reach. However, the deterioration of the operating environment resulted in our failure to achieve the targets put forth for net sales and operating income in the second year of the plan, leaving issues that need to be resolved.

#### Trend in Key Management Indicators



#### Operating Income to Sales Ratio



## Progress by Basic Groupwide Policy

### Initiatives and Progress Based on

#### Four Basic Groupwide Policies

##### I. Ensure the Group's businesses steadily capture demand arising from growth, particularly in global markets

Successes in the fiscal year under review included the acquisition of an Indonesian maintenance service company and a Brazilian standard pump manufacturer in the pumps business. In the future, we intend to push forward with the development of the businesses of these newly added companies as well as our other overseas operations in emerging countries with significant potential for market growth. At the same time, we are implementing post-merger integration measures to ensure that synergies with these companies can be realized as quickly as possible. Meanwhile, we are transferring production from Japan to China in the chillers business. This move is meant to help us better capture demand in overseas markets, such as China, which continues to grow despite a slight trend toward market adjustment, as well as Southeast Asia and the Middle East.

In the consistently strong-performing PM Business, we began construction at our plant in Kumamoto to boost its production capacity in light of robust demand, and we hope to have the plant operating at its increased capacity within 2016. This will be the first investment of this magnitude conducted since the plant was constructed in 2001. The resulting production capacity increase is anticipated to help facilitate the expansion of the PM Business.

At other existing factories, we continued to implement productivity innovation activities to improve productivity and boost production capacities. Through these activities, we aim to establish an even more competitive production system.

##### II. Become a service provider that targets the entire life cycle of the product / plant

In the pumps business, we are working to expand service and support (S&S) business, particularly with regard to the overseas custom pumps business. Measures to this end include the enhancement of service networks through the aforementioned acquisition of an Indonesian company. In the compressors and turbines business, in which we have already begun reinforcing service networks, we are also moving forward with efforts to expand S&S business. To further these efforts, we established service bases in Tianjin, China, and Bangalore, India, during 2015. Meanwhile, we continued to steadily increase the number of facilities that contract us to carry out the operation and maintenance (O&M) services of existing facilities in the Environmental Engineering (EE) Business.

##### III. Continuously enhance our core competence (technological capabilities) as an industrial machinery manufacturer

In the pumps business, we launched two core global products and released 15 regional products during the fiscal year under review. Furthermore, we appointed product managers that are responsible for everything from product development to launches and the accomplishment of numeric targets. With these managers in place, we are now poised to continually conduct swift development of competitive new products and systematic launches of these products.

Creating competitive products is crucial to the continuity of not only the pumps business but all of our businesses. Accordingly, we feel that it is absolutely essential for the Group to innovate its product development systems if it hopes to steadily grow earnings. It was for this reason that in 2010 we re-invented the centralized research style we had continued to practice up until that point. The resulting new system allows the EBARA Group's researchers and engineers to engage in open collaboration with research institutions both in Japan and overseas in the pursuit of technological innovations. Furthermore, in 2016 we began deploying initiatives for creating new businesses through the development of products that are on the cutting edge of global technological innovation.\*

\* For more information, please refer to pages 28-30.

##### IV. Enhance the management infrastructure that supports global business expansion

We are constantly re-examining our human resource policies in order to establish foundations for supporting the global development of our business. As set forth in our vision of what we want to become in the fiscal year ending March 31, 2020, we aim to create systems that ensure all employees receive proper compensation in accordance with their individual talents. As one measure for creating such systems, we implemented a performance-linked bonus system in 2015. In addition, we began implementing work-style reforms targeting all employees. The goal of these reforms is to cultivate an open corporate culture that enables every employee to succeed, regardless of their gender or nationality. These reforms are being conducted in three areas: awareness and corporate culture reforms, system and environment reforms, and work process reforms and visualization. The Diversity Promotion Department coordinates with other related divisions to draft and implement initiatives related to these reforms.

**I am reminded of the importance of having all employees re-acknowledge our position as a service provider that targets the entire life cycle of products and plants and go about enhancing our competitiveness accordingly.**

## Future Challenges

The fiscal year ending March 31, 2017, the final year of E-Plan2016, is an important juncture in which we will work to tie together all the initiatives that we have been advancing over the three-year period. One of the basic policies of E-Plan2016 is to "become a service provider that targets the entire life cycle of the product / plant." As we approach this juncture, I am reminded of the importance of having all employees re-acknowledge our goal to act as such a service provider and go about enhancing our competitiveness accordingly. The ability to provide support for all areas of product and plant life cycles is a unique characteristic of EBARA's business, and leveraging this characteristic enables us to provide value that only the Group can while charting a path toward our vision for the future.

Looking ahead, while we expect short-term fluctuations in conditions in markets related to energy, semiconductors, social infrastructure, and other business fields targeted by the Group, these markets are anticipated to continue growing over the medium-to-long term when viewed on a global basis. We will thus work to enhance our competitiveness in such markets projected to see medium-to-long-term growth as we simultaneously strive to minimize the negative impacts of short-term fluctuations in conditions. The pursuit of long-term improvements in corporate value through these efforts will be entrenched into the overall framework for our business, and everyone at the EBARA Group will band together to accelerate initiatives in this regard.

### Operating Environment and Strategies for Each Business in the Fiscal Year Ending March 31, 2017

We are committed to steadily generating results in the final year of E-Plan2016 while addressing the issues that have been identified thus far in order to cement the foundations for the next medium-term management plan.

#### Fluid Machinery & Systems Business

In the pumps business, we project that conditions in domestic and other building equipment markets will be relatively stable,

not being significantly impacted by operating environment changes. Overseas, despite the challenges presented by yen appreciation, we anticipate growth in orders thanks to the benefits of M&A activities. We will systematically launch new products in this business as we strive to improve profitability.

The compressors and turbines business is witnessing the postponement of new plant construction starts in overseas oil and gas markets, its primary target, due to the persistently low price of crude oil. In this business, we will continue to develop and launch new product series that contribute to higher competitiveness while reinforcing our S&S business, which is resilient to the impacts of operating environment changes. We thereby expect to be able to secure a certain amount of operating income.

The chillers business is expected to suffer from the ongoing economic slowdown in China. However, this will not stop us from continuing to strengthen operations in Japan while promoting coordination between overseas and domestic bases.

#### Environmental Engineering Business

In the EE Business, conditions are expected to remain stable in public infrastructure markets, such as those related to waste incinerating facilities, in the fiscal year ending March 31, 2017. Seeking to maintain a consistent flow of orders from these markets, we will improve our proposal capabilities for non-price competitions in bid offerings. At the same time, we will enhance our overall competitiveness including cost reductions and the profitability of received orders.

#### Precision Machinery Business

The PM Business will continue to operate its business in a manner that incorporates robust demand while advancing the production capacity increase on schedule through construction that was commenced at the Kumamoto Plant in 2016. Going forward, we will maintain our focus on ensuring that this business is always able to uphold consistently high operating margins, even in highly volatile markets.