

EBARA Corporation
E-Plan 2016

Medium-Term Management Plan
(April 1, 2014 to March 31, 2017)

EBARA Corporation

May 2014

Medium-Term Management Plan “E-Plan 2016”

1. Review of the Previous Medium-Term Management Plan (E-Plan 2013)

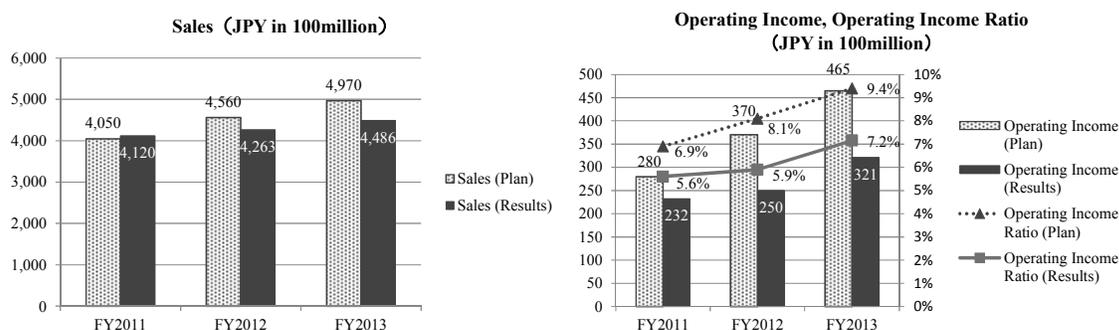
Ebara Corporation (hereinafter referred to as “The Company”) positioned the period of the previous Medium-Term Management Plan (FY 2011- 2013) as the “The term to establish a more solid and stable business structure,” and focused on strengthening its management foundation while achieving stability in generating profit. In detail, the Company focused on achieving the establishment of an optimally located production and supply system based on its regional strategies, and also focused on such initiatives as expanding the functions of the corporate headquarters in line with the globalization of its business domains, as well as rolling out its “productivity innovation activities” both in Japan and overseas. Consequently, the Company was able to keep increasing its sales, operating income, and operating income ratio throughout the period, improve its financial standing and achieve a certain level of success in solidifying its management foundation. However, the whole Ebara Group (hereinafter referred to as “the Group”) has not been able to fully capture rapidly expanding overseas markets and growth of industry, owing to the fact that the Group had failed to make significant progress in growth-oriented investments and measures, in addition to factors associated with the external environment such as the effects of the strong yen, the Great East Japan Earthquake and prolonged deflation that has plagued the Japanese economy. As a result, the Group has achieved only a part of the numerical targets that were set at the time of the formulation of the plan.

Comparison of the planned targets and actual results for FY 2013 ended March 31, 2014

Table 1. Targets to be achieved under E-Plan 2013 and achievement status

	FY2011 Results	FY2012 Results	FY2013 Results	FY2013 Targets
ROIC	1.0%	4.9%	5.8%	8% or more
ROE	1.9%	9.1%	9.6%	12~14% or more
D/E Ratio	1.0	0.7	0.6	0.5~0.7 or less

Graph 1. Progress on the E-Plan 2013 performance plan



2. Vision for Ebara Group

Populations in emerging countries are growing and the living standards there have been rising by its economic development; meanwhile, social infrastructures in industrialized countries are aging. Such situations increase the demand for the development of social and industrial infrastructure, including energy- and water-related infrastructures and environment-related facilities, and highly-efficient equipment, machinery, and systems that are the components of such infrastructure. Considering such social needs fit exactly what the Group's business domains cover, the Group has positioned quite responsible to achieve the mission to meet the needs by offering solutions based on its products and services. In other words, the Group has been determined to fulfill Corporate Social Responsibility (CSR) throughout the conduct of business mentioned above, and the Medium-Term Management Plan "E-Plan 2016" shows a fundamental platform that the conduct shall follow.

From that perspective, holding up the Group's goal ahead "to ensure its standing as a global top-tier manufacturer of industrial machinery" as a common medium-to-long-term vision shared in the Group, we have defined the vision of what we want to become (in six years by FY 2019) as per the following, so that we can clarify its practical conduct in the Group.

The vision of the goal for FY 2019

- ◆ 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.
- ◆ Solidify the position of all businesses in their respective business domains. In the pumps business, in particular, we will ensure the Company's position as one of the world's top three pump manufacturers upon establishing M&As as a viable management option.
- ◆ 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.

3. Basic Groupwide Policies of the New Medium-Term Management Plan (E-Plan 2016)

3-1. Basic Groupwide Policies

The Company has positioned 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'". By prioritizing quantity (sales) in the overseas markets and quality (operating income) in the domestic market in Japan, the Company, through the flexible and focused utilization of both internal and external resources, intends to realize

change and accelerate growth in a timely manner. Through these efforts, by the final year of the plan (FY 2016), the Company has aimed to reach a point where it will be able to grasp a clear view of the path leading to the vision of what it wants to become in six years (by FY 2019), as stated in the previous clause. To this end, it has established the following four basic policies:

I. Steadily capture the growth in global market into the Company's business

- 1) We will determine priority domains in the growing markets in terms of both region and industry, and expand our market shares upon establishing a system of accountability for business execution in each domain.
- 2) We will reinforce our product planning and development capabilities, which will allow us to continuously supply products that meet market needs.
- 3) We will proactively engage in M&As as a viable option for gaining a foothold in new domains.

II. Become a service provider that targets the entire lifecycle of the product / plant

- 1) In the domestic market in Japan, we will implement various measures that will maximize profits from previously delivered machinery and plants in the matured market on the strength of our abundant track records.
- 2) In overseas markets, we will reinforce our business framework mainly in areas where we have had strong track records to raise our coverage of existing equipment that we delivered, particularly in the Service & Support(S&S) business.
- 3) We will launch new business systems that go beyond the existing framework of “manufacturing”.

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

- 1) We will clearly define and continuously enhance our core competence (including technology relating to production, quality control, and other matters as well as products), which is the source of product competitiveness of each business. In the pumps business, in particular, the enhancement of core competence will be recognized as a Companywide objective, and fundamental overhauls from the design level will be undertaken through the utilization of Companywide resources to reinforce our product competitiveness.
- 2) We will develop and operate basic technology and internal infrastructure applicable to all businesses to enhance “core competence”.
- 3) In terms of the productivity innovation activities, which aims to build the most efficient production system in the industry, we will accelerate the further optimization of the *monozukuri* (manufacturing) process and set specific quantitative indicators that will enable the verification of its progress, thereby practicing thorough management over

the progress made in achieving these targets, as well as accelerate its rollout to the overseas production hubs.

- 4) We will plan for the improvement of production efficiency and the timely reflection of regional / customer needs in our products and accelerate the shift to optimally located production, including the rearrangement of production functions and the reorganization of production plants both in and outside of Japan, while at the same time conducting the ongoing development of human resources who will play a vital role in the global production system.

IV. Enhance the management infrastructure that supports global business expansion

- 1) By deepening the various specialized functions and refining services based on such functions, we will reinforce the corporate headquarters' functions required for adequately supporting the global expansion of each business.
- 2) We will fully utilize Information and Communication Technology (ICT) in the monitoring and control of every aspect of business activities, including production, sales, inventory, and procurement, as well as develop a management system that takes full advantage of such technology.

3-2. Targets to Be Achieved

- 1) We will set and make efforts to improve return on invested capital (ROIC)*1 as a key management indicator.

We will aim for a ROIC target of 7% or more at the end of FY2016. To achieve the numerical target stated above, while maintaining a balance of financial stability and the efficient utilization of capital, we will set the D/E ratio*2 and return on equity (ROE)*3 as key management indicators from a business management perspective, and efforts will be made to improve such indicators without overemphasis of one or the other. We will aim for approximate values of the D/E ratio from 0.4 to 0.6 and ROE from 11% to 12% in FY2016.

$$\begin{aligned} *1 \text{ ROIC} &= \text{Net income} / \text{invested capital} \\ &= \text{Net income} / (\text{interest-bearing debt} + \text{shareholders' equity}) \end{aligned}$$

$$*2 \text{ D/E ratio} = \text{Interest-bearing debt} / \text{shareholders' equity}$$

$$*3 \text{ ROE} = \text{Net income} / \text{shareholders' equity}$$

- 2) Based on the targets set forth in 1), each business will set and manage the “operating income ratio” as a key management indicator to assess business execution. We will aim for an operating income ratio target of 8% or more for the entire Group in FY2016.

- 3) In particular, the pumps business will set and manage the ratio of overseas sales and the ratio of S&S sales as key indicators to manage business execution. In FY2016, the pumps business will aim for a ratio of overseas sales (to sales in the pumps business) of approximately 45% or more and a ratio of S&S sales (to overseas sales of the custom pumps) of approximately 30% or more.

3-3. Shareholder Return during the Period of E-Plan 2016

Considering enhancement of shareholder return, we intend to pay out dividends in line with the Company's performance for the period concerned so that the consolidated payout ratio over the medium-to-long-term will average approximately 25%.

4. Basic Policies of the New Medium-Term Management Plan (E-Plan 2016) by Business Segment

4-1. Fluid Machinery & Systems Business

To “enhance our presence (market share) on the global market”, we will establish an efficient business structure by engaging in the priority tasks of “expanding our business scale in growing overseas markets” and “improving profitability in the mature market in Japan.” In keeping with the perspective that thorough examinations of customer needs are the source of product competitiveness, we will enhance our functionality that will enable us to offer quality, prices, and delivery that meet customer needs while creating S&S services across the entire lifecycle of the product. Additionally, we will recognize our elemental technology that serves as the source of our competitiveness in the basic technologies of “hydro- and aero-design technology”, “oscillation- and structural-analysis technology”, “material application technology”, “electric and electronics technology”, and “production and quality control technology associated with molding, bonding, processing, measuring, and automation”, and reinforce such technologies in an ongoing and strategic manner, while enhancing our market coverage through product development leveraged by such technologies.

The basic policies for each business sub-segment are as follows.

Pumps Business

Goals for FY 2019

To capture the growth of the global markets in a more aggressive manner, we will “cast off our existing, conservative corporate culture” and aim to become “Asia's No. 1” pump manufacturer and “one of the world's top three” pump manufacturers.

Basic Policies of E-Plan 2016

- (1) We will engage in speedy product development that meets customer needs (quality, price, and delivery), and launch competitive new products on the market.
- (2) We will increase the number of hubs equipped with sales, service, and packaging functions on a global basis and establish a new business model by aligning sales and S&S (including S&S of products of other companies).
- (3) We will thoroughly reduce costs by such means as the revision of basic product design, while globally optimizing the procurement system and the product supply system through the coordination of data among the production, sales, and service hubs.

Compressors and Turbines Business

Goals for FY 2019

We will firmly establish the “Elliot” brand in the continuously expanding energy-related market and achieve 200 billion JPY in sales by solidifying our competitive edge in products and services against the mega-competition and aim for sustainable growth and expansion.

Basic Policies of E-Plan 2016

- (1) We will thoroughly enforce group management through a global organization and speed up the decision-making process by the establishment of a globally-integrated production management system.
- (2) By raising our product competitiveness and reinforcing our production capabilities, we will ensure that the expansion of the market will lead to the expansion of order receipt and realize both quantitative and qualitative growth by reinforcing our S&S capabilities.
- (3) To optimize the *monozukuri* process, we will take a scientific approach in globally rolling out the productivity innovation activities and enhance our competitive edge by raising the competitiveness of our prices, delivery, and quality.

Chillers Business

Goals for FY 2019

We will capture the No. 1 market share in the chiller market in China and Southeast Asia, while thoroughly improving profitability in the mature market in Japan, and we will aim for a ratio of overseas sales of 50% or more for the business as a whole.

Basic Policies of E-Plan 2016

- (1) In the domestic business in Japan, we will establish a stable revenue and profit structure by improving profitability from product sales and expanding the lineup of our S&S business.
- (2) In the overseas business, we will expand our business scale by defining China and Southeast Asia as priority areas and enhance our presence by launching products that match the market needs of each area.
- (3) We will improve the development organization at the bases in both Japan and China and quickly launch products that meet market needs by effectively utilizing development resources between the hubs.

Through the efforts outlined above, the Fluid Machinery & Systems Business will aim for performance targets of 393.0 billion JPY in sales, 33.0 billion JPY in operating profit, and an operating profit ratio of 8% in the final year of E-Plan 2016 (FY 2016).

4-2.Environmental Engineering Business

Goals for FY 2019

We will stand in a leading position in the market in terms of market share, profitability, and efficiency for the construction and operation of waste incineration facilities in Japan. To do that, we will further strengthen our stable profit foundation while maintaining and expanding business opportunities and profitability in the market in Japan. At the same time, we will rigorously improve productivity and profitability through the promotion of enhanced business efficiency, thereby aiming to consistently achieve an operating income ratio of 11% or more. Additionally, we will define our facility-design and -construction know-how that reflects our expertise in the O&M business*¹ and our maintenance / repair, operation, and facility management know-how based on our facility design philosophy as the core competence of this business, and further promote the integration of the O&M and EPC*² businesses, thereby reinforcing our core competence and differentiating our technology from others.

Basic Policies of E-Plan 2016

- (1) In the EPC market in Japan, we will establish an earnings structure that will enable us to secure stable sales and operating profit.
- (2) In the O&M market in Japan, we will extend the range of contract by improving customer satisfaction, customer bonding, and customer trust.
- (3) We will reinforce the competitiveness of the business as a whole (in terms of cost, quality, and business type) by maximizing the synergy between the EPC and O&M businesses.

Through the efforts outlined above, the Environmental Engineering Business will aim for performance targets of 65.0 billion JPY in sales, 6.5 million JPY in operating income, and an operating income ratio of 10% or more in the final year of E-Plan 2016 (FY 2016).

*1 O&M: Operation & Maintenance

*2 EPC: Engineering, Procurement, Construction

4-3. Precision Machinery Business

Goals for FY 2019

Upon securing an operating income ratio of 10% or more on medium term average regardless of the conditions in the semi-conductor market, we intend to develop a group of products that will become the third pillar of the business following vacuum pump products and CMP system, and aim to establish a business base capable of sustained growth. Additionally, by improving our core competence of “precision rotating machinery technology” and “process-engineering technology,” as well as our “customer-based development,” we will expand the application of our existing technology and launch products on the market from a medium-to-long-term perspective.

Basic Policies of E-Plan 2016

- (1) We will establish a sound business foundation that does not rely on the capital investment cycle of the semiconductor industry. Additionally, we will take appropriate measures in preparation for the recovery of the non-semiconductor market that remains sluggish.
- (2) Through flexible business management that is capable of swiftly responding to market changes in a timely manner, we will improve an operating income ratio on average throughout the E-Plan 2016 period.
- (3) We will employ and develop human resources in all fields, such as marketing, development, production, quality assurance, sales, and S&S, which will be required to overcome our competition in the priority markets (Taiwan, South Korea, United States, and Japan), and appoint optimal human resources to locations in Japan and overseas.

Through the efforts outlined above, the Precision Machinery Business will aim for performance targets of 75.0 billion JPY in sales, 7.5 million JPY in operating income, and an operating income ratio of 10% or more in the final year of E-Plan 2016 (FY 2016). At the same time, it will aim for an operating income ratio of 9% or more on average throughout the E-Plan 2016 period.

5. Major Numerical Targets

Numerical targets (In FY 2016, the final year of E-Plan 2016) (Unit: 100 million JPY)

	Sales	Operating income (ratio)	Ordinary income (ratio)	Net income (ratio)
Consolidated	5,350	470 (8.8%)	460 (8.6%)	270 (5.0%)
By Business	Fluid Machinery & Systems	3,930	330 (8.4%)	
	Environmental Engineering	650	65 (10.0%)	
	Precision Machinery	750	75 (10.0%)	

Note: Assuming exchange rates of 1 USD = 100 JPY, 1 EUR = 140 JPY, and 1 RMB = 16.5 JPY

Other numerical targets (Total of FY 2014 – 2016) (Unit: 100 million JPY)

R&D expenses	Capital investments
300	570

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.