

Summary of Q&A Session at the Financial Results Briefing for the First Half of the Fiscal Year  
Ending March 31, 2016

Date and Time: Friday, October 30, 2015, from 10:00 a.m. to 11:00 a.m.

Venue: Belle Salle Yaesu

**Notice:** This summary is a reference designed for the convenience of those who could not attend the financial results briefing stated above. Please note that this is not a word-for-word transcript of all remarks made at that session, but is a summary prepared by Kurita Water Industries Ltd.

**Q.** Can we consider that the results in the Water Treatment Chemicals segment in the first half would have been on a par with the plan except for the effects of the purchase price allocation (PPA) and the one-month delay in the consolidation of Kurita Europe APW GmbH (KEAG)?

**A.** Yes, you can.

**Q.** Could you compare domestic sales in the Water Treatment Chemicals segment in the first half with those in the first half of the previous fiscal year?

**A.** They were roughly the same as the year-ago level. They exceeded the year-ago level in the first quarter, but slowed in the second quarter.

**Q.** Could you tell us your views on domestic demand for water treatment chemicals?

**A.** Our domestic sales declined from the second quarter. Many economic indicators, including the industrial production index, also worsened at the same time. However, we believe that we can expand domestic sales by introducing new products and technologies. We have started cross-selling and exchanging R&D personnel with KEAG. We expect synergy to increase gradually.

**Q.** Were overseas sales of water treatment chemicals except KEAG in the first half roughly in line with the plan?

**A.** Yes, they were.

**Q.** What do you expect the effect of PPA to be at KEAG in the fiscal year ending March 31, 2016?

**A.** We expect an adverse effect of 0.7 billion yen, that is, an increase in cost of sales of 0.6 billion yen and a rise in selling, general and administrative expenses of 0.1 billion yen.

**Q.** What do you expect the operating income margin of KEAG to be before the amortization of goodwill and technology-related assets in the fiscal year ending March 31, 2017?

**A.** We said that KEAG's operating income margin would be around 5%, but it has declined this fiscal year, partly due to the temporary effect of PPA. We aim to achieve 5% or more in the next fiscal year, and believe that we can achieve the target.

**Q.** In water treatment facilities for general industries, the difference between the actual operating income, which was short of the plan, and the plan in the first half was larger than the difference between the actual sales and the plan. Why?

**A.** First, sales of facilities in general industries declined, and fixed costs per sales unit increased.

Second, the product mix worsened: that is, soil remediation projects, whose profitability is low, increased, and some electric power projects, whose profitability is high, declined. Profitability in water treatment facilities for general industries will remain low in the second half. However, there is no structural problem, and we expect profitability to recover from the next fiscal year.

Q. Could you tell us about the status of unprofitable projects in the Water Treatment Facilities segment in the first half?

A. No significant unprofitable projects occurred in the first half. Some unprofitable projects overseas for which orders were received before the first half ended in the first half.

Q. Do you expect any unprofitable projects in the second half?

A. We cannot say that there will definitely be no new unprofitable projects. However, we have not allocated any reserves to possible unprofitable projects.

Q. Of Water Treatment Facilities for the electronics industry, what percentages did semiconductors, LCD panels, and other electronic components comprise?

A. In the first half, orders for semiconductors, LCD panels, and other electronic components comprised 25%, 53%, and 22%, respectively. Sales of semiconductors, LCD panels, and other electronic components comprised 16%, 61%, and 24%, respectively.

Q. What kind of overseas Water Treatment Facilities projects do you expect to win in the electronics industry in the second half?

A. We expect to win an LCD panel project in China and a semiconductor project in South Korea.

Q. I understand that you are expecting the expansion of maintenance services overseas. Are there any changes in trends in terms of demand from customers?

A. We have not heard of any particular changes in trends in terms of demand from customers. However, we have delivered a considerable amount of large equipment in the past few years, and accordingly, maintenance services, including the replacement of consumables, have been increasing.

Q. Why do you expect continued growth in China, given that there is concern over the effect of a slowdown in the Chinese economy?

A. We are not concerned about China itself, but about a slowdown among manufacturers in Japan, East Asia, and Southeast Asia that export their products to China. Sales of our water treatment chemicals in China are growing steadily, and the Chinese state policy is to invest in large projects in the electronics industry associated with water treatment facilities. We therefore expect that our sales in China will continue to grow steadily.

Q. How much are sales in the Water Treatment Chemicals segment in China? How much are the sales growing?

A. We expect that the Group's sales in China in this fiscal year will be 18.0 billion yen, of which sales in the Water Treatment Chemicals segment in China are expected to be 8.5 billion yen. We expect that KEAG's sales in China will be 3.0 billion yen. Sales in the Water Treatment Chemicals segment in China, except for sales at KEAG, have grown around 20% year on year

in terms of the local currency in January through September.

Q. Have you benefited from China's enhanced efforts to improve the quality of water?

A. In April, China announced an action plan called the Water Ten Plan, which is intended to promote the improvement of the quality of sewer water and the recycling of water. We consider the action plan to be beneficial to us. We are receiving increasing inquiries from Japanese companies as to how to respond to the regulations.

Q. Do you expect that business opportunities will expand in association with China's strengthening of its semiconductor industry?

A. In the Chinese semiconductor industry, there are facilities under construction and some expansion work going on. Because semiconductor facilities remain insufficient, the Chinese state policy is to increase investment in them. We are strong in the semiconductor industry and aim to increase sales, taking advantage of this situation.

Q. Could you tell us which major investment projects in the ultrapure water supply business included in the Results Presentation material were not included in the capital expenditure plan at the beginning of the fiscal year?

A. There are some domestic LCD and semiconductor projects that were not included in the initial plan. The amount of investment has increased from the plan.

Q. If the 17.5 billion yen worth of major investment projects in the ultrapure water supply business that are included in the Results Presentation material are implemented, how much do you expect they will contribute to sales?

A. If all the investments are implemented, they will contribute over 4.0 billion yen to annual sales.

Q. What will you do with projects in the ultrapure water supply business that will expire in December 2015?

A. We are conducting final negotiations to renew the contract.

Q. If you renew the contract in the ultrapure water supply business that will be expiring, will sales and profits decline in association with the elimination of depreciation?

A. Both sales and profits will decline. We will negotiate to maintain the income margin.

Q. Are there any other contract in the ultrapure water supply business that will be expiring?

A. There is no contract that will expire by the fiscal year ending March 31, 2018, other than the contract that will expire in December 2015.

Q. What is your outlook for sales in the ultrapure water supply business in the fiscal year ending March 31, 2017?

A. We expect that sales in the ultrapure water supply business will rise in the next fiscal year from this fiscal year's level, reflecting sales from new semiconductor projects in South Korea and semiconductor and LCD projects in Japan.

Q. Could you tell us your investment plan in the ultrapure water supply business in the fiscal year

ending March 31, 2017?

- A. We are expecting new plant construction and plant expansion projects, but we do not know whether those projects will be implemented in the next fiscal year. Yet we are conducting renovations and reinforcing work. Therefore, we will maintain or expand our investments for at least three or four years.
  
- Q. Can we consider that the terms and conditions of the contract in the ultrapure water supply business will not change as long as the plant continues to operate even if the counterparty changes, for example due to an acquisition? Can the unit price be reduced? Can the term of the contract be extended?
  
- A. If the counterparty to the contract changes, a new counterparty will take over the contract. When the counterparties changed in Sakai and Singapore, the terms and conditions did not change at all. Capacity utilization is high at all plants in the ultrapure water supply business. We have not received any requests to extend the term of a contract.

Q. Could you tell us about the business environment of the soil remediation business?

- A. Numerous general contractors have entered the market. We do not remove soil to remediate it. We remediate soil on site and on the premises of plants in operation. There is a great deal of work for the efficient use of land in association with the elimination and consolidation of plants in the manufacturing industry. We expect that there is sufficient room for expansion in the business, although we do not expect that the business will grow dramatically. We would like to improve profitability.

Q. How much were sales from Sharp?

- A. Sales from Sharp were 11.9 billion yen (or 12.2% of overall sales) in the first half.

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