

Summary of Q&A Session at the Financial Results Briefing  
for the Fiscal Year Ended March 31, 2013

Date and time: Thursday, May 2, 2013, from 3:00 p.m. to 4:10 p.m.

Place: 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. Sales in the service business, especially maintenance sales, were below your projection for the fiscal year ended March 31, 2013. Why? We hear that you expect a recovery to start early in the fall of the fiscal year ending March 31, 2014. To what extent is the recovery probable?
- A. In the fiscal year ended March 31, 2013, sales of maintenance services were below our projection due to the classification of relatively large-scale maintenance services, including design and construction, as hardware, in addition to a decline in customer operating rates and the elimination and consolidation of their plants. In the fiscal year ending March 31, 2014, we expect that demand for maintenance services, such as replacing consumables, which customers have been reluctant to do, will start to occur by early autumn when a certain period of time has passed after customer operating rates rose. The most recent demand period for maintenance, during Golden Week, increased from the previous year by around 10% in terms of both the number of plants and sales.
- Q. Concerning overseas sales, your initial projection for the fiscal year ended March 31, 2013, which was ¥37.4 billion, was revised down to ¥36.0 billion at the time of the announcement of the half-year consolidated financial summary, and the actual result was ¥30.5 billion. This trend gives the impression that sales are not growing, although you have increased the number of overseas employees. What factors caused the downward swing and how will you turn the situation around?
- A. In the fiscal year ended March 31, 2013, our overseas sales were below our projection because customers' capital expenditure on large-scale projects was postponed. In the fiscal year ending March 31, 2014, there will be capital expenditure by our overseas customers with relatively high probability. In addition, foreign companies are establishing plants in Southeast Asian countries, and we expect economic partnerships like AEC and RCEP to continue to advance in this region. Therefore, our Group will regard Southeast Asia as a single area and will assign an Executive Officer to oversee the entire area. We will position our base in Singapore as the hub and optimize the entire Southeast Asian region, instead of promoting individual actions by our bases in the region, including those in Malaysia, Indonesia, and Thailand. For example, we will produce water treatment chemicals for automobiles in Thailand and supply them to Indonesia and other Southeast Asian countries. Concerning products for Muslim customers, we will supply them to Singapore and Malaysia from Indonesia, where we have obtained halal certification. In China, our activities to use and develop synergies among water treatment chemicals, water treatment facilities, and maintenance services have finally got on track. In South Korea and Taiwan, we will steadily receive orders for projects for which top-level water quality and delivery speed are required, such as those involving semiconductors. Further, we

have started to see demand for maintenance services for facilities for large-scale projects in China, South Korea, and Taiwan, with orders being received in recent years.

Q. When you developed the medium-term management plan, you planned to increase the number of overseas employees by 300 in the three years from the fiscal year ended March 31, 2013. We hear that the number increased by around 80 in the fiscal year ended March 31, 2013. What are your plans for the fiscal year ending March 31, 2014 and for the next fiscal year? Have you changed the initial plan?

A. There will be no major change in overseas demand during the period of the current medium-term management plan. Therefore, we will continue to recruit and train human resources, mainly local people, at each overseas base as necessary.

Q. You expect sales in the ultrapure water supply business to decline in the fiscal year ending March 31, 2014. Could you provide details?

A. There is no project whose contract will be terminated during the period of the current medium-term management plan. The first negative factor for sales in the fiscal year ending March 31, 2014 is the slight extension of the contract period by a major LCD plant. It influenced sales only for the second half in the fiscal year ended March 31, 2013, but will remain influential for the entire fiscal year ending March 31, 2014, thereby decreasing sales. However, although annual sales will decrease, total sales and income for the entire contract period will increase and the internal rate of return will remain unchanged. In addition, depreciation for first-phase capital expenditure ended at another major LCD plant, so the sales will decrease accordingly. Moreover, the project in Singapore was terminated and we shifted to an operation & maintenance contract as we had planned. However, there is also a positive factor because there was a new additional investment project. Nonetheless, sales in the overall ultrapure water supply business will decline slightly.

Q. The profitability of the ultrapure water supply business did not change in the fiscal year ended March 31, 2013, did it?

A. Yes, you can assume that.

Q. The operating margin for water treatment facilities for general industries declined from 8.6% in the fiscal year ended March 31, 2012 to 2.2% in the following fiscal year, and the projection for the fiscal year ending March 31, 2014 is 3.1%. Could you describe your prospects on the profitability of facilities for general industries for the fiscal year ending March 31, 2015 onward?

A. First of all, we expect maintenance services to continue growing steadily, with no change in profitability. Regarding hardware, the factor behind its improvement in the fiscal year ended March 31, 2012 is the fact that the profitability of projects for the reconstruction of thermal power plants damaged by the earthquake was higher than we had expected initially. We do not expect profitability to decline in the future because we will focus on areas with relatively steady demand, such as food, pharmaceuticals, industrial waste treatment, and leisure. One recent trend in water treatment facilities for general industries is that there are many medium- and small-scale projects involving new customers. The key point going forward will thus be completing these projects efficiently through the use of standard articles and compilation design,

etc.

Q. In the medium-term management plan, your projection for operating income margin of water treatment facilities for the fiscal year ending March 31, 2015 is 12.9%. What is the operating income margin of facilities for general industries included in it?

A. It is between 5% and 10%.

Q. You have been trying to expand your overseas business for several years now, but overseas sales have had only limited growth, especially in Europe and the United States. You said before that you have been looking for potential M&A and alliances in Europe and the United States. What fields are your targets?

A. First, in Europe, we mainly trade water treatment chemicals and also handle some facilities. Sales have not been growing much because of the poor economic conditions. However, the economy is large and we believe there is still a market in this region. Accordingly, we will launch new products including cooling water treatment chemicals, aiming to increase sales gradually. At the same time, to increase sales significantly, we would like to be active in undertaking M&A and alliances that are likely to create synergy and improve profitability. In North America, we handle both water treatment facilities and water treatment chemicals, and the market is also large in this region. Above all, many plants for refining shale gas will be established in the coming years. Consequently, there is huge potential demand for related products including cooling water treatment chemicals, so we are increasing the number of employees for the chemicals business at our base in the United States.

Q. Can we assume it is because sales related to shale gas will increase that sales in North America will rise from ¥2.3 billion in the fiscal year ended March 31, 2013 to ¥3.0 billion in the fiscal year ending March 31, 2014?

A. Shale gas is not factored into our order and sales projections for the fiscal year ending March 31, 2014. We assume there are two shale-gas-related markets, that is, one for water treatment chemicals and one for water treatment facilities. Because water used for fracking needs to be treated, demand for water treatment facilities is probable. However, while there are related regulations in individual states, the federal government has yet to introduce regulations. Concerning water treatment chemicals, we are studying the feasibility at the moment.

Q. The first-half and second-half projections for sales of water treatment chemicals are almost the same for the fiscal year ending March 31, 2014, although you expect a recovery in demand for the products after summer. Why?

A. We expect customers' operating rates—the premise for domestic demand for water treatment chemicals—to recover after the summer, mainly in the export industry. However, competition remains fierce in cooling water treatment chemicals for petroleum industrial complexes and petrochemical complexes, for which we hold large market shares, given a shutdown in facilities at customers' plants and their overseas transfer. Accordingly, domestic sales of water treatment chemicals will not grow significantly. In overseas markets, we expect demand to be steady, mainly in emerging countries, and consequently first-half and second-half results will balance each other out in our projection.

- Q. Could you describe the long-term trend in the ultrapure water supply business for the fiscal year ending March 31, 2016 and onward?
- A. In fact, sales from the ultrapure water supply business will decline due to the expiry of contracts, unless new projects are added. However, it is only the project in Singapore that was terminated, when the ten-year contract period expired. Capital expenditures have been made in steps for semiconductor projects, and contracts on LCD projects have also been extended. Therefore, sales from the ultrapure water supply business will not fall sharply, although nor will they grow significantly. In the fiscal year ending March 31, 2014, new LCD projects in which investments were made in the fiscal year ended March 31, 2013 may contribute to sales, while investments in facility expansion are also possible for semiconductors. In addition, in the previous term, we started a business of buying customers' utility facilities, including boilers, together with partners and undertaking O&M to retain customers. We would like to consider undertaking projects such as this if the opportunities arise.
- Q. What is the current asset value of the ultrapure water supply business on the balance sheet?
- A. It is approximately ¥52.0 billion.
- Q. Could you tell us the ratio between semiconductors and LCD in orders for hardware for the electronics industry.
- A. The ratio in the fiscal year ended March 31, 2013 was 47% for semiconductors, 13% for LCD, and 40% for electronic components and others.

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