

Summary of Q&A Session at the Financial Results Briefing for the First Half of the Fiscal Year
Ending March 31, 2014

Date and Time: Friday, November 1, 2013, from 3:00 pm to 4:00 p.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. Earnings from the overseas electronic industry decreased during the fiscal year ended March 31, 1997. With respect to the recent unprofitable overseas projects, first, what were their order prices? Second, why did you fail to foresee the cost increase? And third, what action are you thinking of taking in the future?

A. In the past several years, we have dealt with a number of large projects in China, South Korea and Taiwan. We thought we had analyzed the factors behind the unprofitable projects and taken remedial action in the previous fiscal year, but some projects remain unprofitable. This is due to a failure in the overall management of projects. The work approach has advanced and is now different from that in 1997, but we failed to fully respond to customers' circumstances. In the future, for Taiwan, our sales and production teams will work together to take different actions in a bid to cut costs by 20%. In Taiwan, we have worked under the same system as in Japan to some extent. In the future, we will develop local partners to implement detailed design and construction management locally while basic design will be done in Japan. This effort has already been started in China. In South Korea, we are taking this action through our subsidiary. It should have been started earlier. In the future, we will adopt a method that is effective outside Japan as we should normally do. We believe that all the problems have been cleared and that it is possible to boost profitability.

Q. The 20% cost reduction in Taiwan is a very challenging goal. Is it a feasible goal?

A. We think we can achieve it. For example, we will transfer detailed design and other tasks to our Taiwanese partners for as many of the projects currently handled solely by our staff outside Japan as possible. For construction management, we send five to ten domestic personnel at the moment. This will be transferred to local staff to the extent possible. For purchases, we will shift to worldwide procurement. We will be purchasing those available in Taiwan and Chinese products instead of transporting everything from Japan. We believe that we can cut costs by 20% by taking these measures. If the cost reduction rate does not reach 20%, it is difficult to regain profitability in Taiwan.

Q. On the assumption that you achieve the 20% cost reduction, what profit do you estimate will arise from it?

A. We will achieve profitability equivalent to that of domestic operations.

Q. Can we understand that the reserve for unprofitable projects will be entirely ended this fiscal year, or will some of it continue in the next fiscal year?

A. Some projects have long delivery periods and they themselves will continue to exist. However, we have already re-estimated the costs and taken them into account. So, they will not remain unprofitable in the next fiscal year. The project with the recent sharp decline in profitability was a challenging project in which the scrap-and-build process had to be done without interfering with existing equipment from other manufacturers. They were exceptional in the sense that no detailed on-site check was possible and accurate estimation was difficult.

Q. The presentation material shows the correlation between the industrial production index and domestic sales of water treatment chemicals. In the past, the bottom and the peak coincided. Recently, domestic sales of water treatment chemicals have still not risen six months after industrial production hit the bottom. Can you meet the second-half target in domestic sales of chemicals?

A. There is indeed some disparity recently, but the overall trend suggests that the past correlation still exists. The presentation material makes a comparison with year-on-year changes, but the actual figure for the industrial production index is still around 97 or 98, assuming a value of 100 represents the 2010 level. Following the depreciation of the yen, the amount of exports has been rising since January this year, with the exception of February, but the quantity of exports is around 90% of the 2010 level. This suggests that the production volume has yet to grow substantially. As it is on an upward trend, we anticipate that domestic sales of water treatment chemicals will rise based on future increases in the factory operation rate, given that it has a linear impact on the sales figure.

Q. What percentages of orders from the electronics industry for the first half pertain to semiconductors, LCDs, electronic components and other items?

A. Orders concerning semiconductors accounted for 47%, those concerning LCDs for 28% and those for electronic components and others for 25%.

Q. What was the amount of orders from the overseas electronics industry subject to cancellation? Was the cancellation temporary?

A. It is about one billion yen. The order had become final earlier, but the customer changed the product it would produce and accordingly the water treatment specifications also changed. So, the order was cancelled and we entered into renegotiations but the order was captured by a competitor. Therefore, it is very much temporary.

Q. Have the selling prices of water treatment chemicals fallen?

A. No, they have not. We are in fact trying to increase their prices although we have no idea how much increase could be done under the full-year plan.

Q. What price increase do you assume for water treatment chemicals?

A. Several hundred million yen on an income basis. We started realistic negotiation efforts in the second half. Customers themselves add the increased cost to their product prices. Crude oil prices are soaring. Given these reasonable grounds, we think that the price increase will be accepted to some extent.

Q. What is your detailed forecast for changes in full-year operating income?

A. Operating income is expected to decrease by 6 billion yen in total from the previous fiscal year. To break that down, it will drop 0.7 billion yen following the revenue decline, 0.3 billion yen due to soaring raw material prices, 3.1 billion yen after a deterioration of the cost of sales ratio and 2.1 billion yen arising from an increase in selling, general and administrative expenses, although this will be partially offset by a 0.2 billion yen increase due to other factors.

Q. The ultrapure water supply business seems relatively brisk. We see new investments concerning NAND flash memories and small and midsize liquid crystal panels and the capital investment plan for this fiscal year was revised upward. What will the trend be in two or three years?

A. It is expected that the ultrapure water supply business will achieve net sales of 31.7 billion yen for this fiscal year. For the next fiscal year, we anticipate that its sales will reach or surpass this level. In the fiscal year ending March 2016 and beyond, some contracts with LCD factories and semiconductor factories are set to terminate, but there may be investments that could exceed the loss arising from these contract terminations. So we foresee that the sales level will remain flat in the near future. Of course, sales will gradually decline if there is no new project at all. Even if the ultrapure water supply contract comes to an end, it will shift to an operation and maintenance (O&M) contract. It will account for 60 to 70% of the sales of the ultrapure water supply business.

Q. What are your thoughts on operating income for the next fiscal year?

A. It is difficult to answer the question at this stage because we have yet to start the process of drawing up the business plan. Of course, we aspire to at least improve on this fiscal year.

Q. With respect to the unprofitable projects from the overseas electronics industry, did you have an overoptimistic outlook at the time of receiving orders? Or did you have any problem with the construction capacity? Please give a structured explanation.

A. Some projects became unprofitable during the construction process because of a lack of consideration at the time of receiving orders, and other projects became unprofitable as a result of unexpected events during the construction process, although they were not unprofitable at the time of gaining orders. There are both kinds of projects. There are some extra costs that we would not have incurred if we had thoroughly and clearly defined the terms and conditions at the time of receiving orders. We can prevent substantial additional costs by determining elaborate contractual conditions and, in addition, by working to reduce total costs.

Q. Will more stringent contractual conditions create any difficulty for you in winning the race for orders?

A. It is possible, but the technologies and products that we propose will enable us to compete. We do not think that we are inferior in making proposals that make customer feel like adopting our products. We therefore believe we can conclude contracts that will not considerably disadvantage either party.

Q. Could you explain not only about cost cutting but also about your strategy for raising the top line?

A. Demand from the overseas electronics industry depends on customers' capital investment. To heighten the top line under these circumstances, it is essential to secure price competitiveness and to exert our advantage. In overseas operations, we will unfailingly follow the basic principle of making proposals that are superior in price while slashing costs.

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