

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

Date and time: Friday, May 2, 2014, from 3:00 p.m. to 4:00 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. Could you tell us the amount of and background to cancellations of orders? Were any expenses caused by cancellations of orders?

A. There were 12.5 billion yen's worth of cancellations of orders in the Water Treatment Facilities segment in the fiscal year ended March 31, 2014. Cancellations overseas amounted to 9.8 billion yen, and cancellations in Japan, 2.8 billion yen. Of the 2.8 billion yen of cancellations, 2.5 billion yen was in general industries, and 0.3 billion yen was in the electronics industry.

There were different reasons for the cancellations. For example, a customer in the electronics industry overseas changed its manufacturing from a memory to system LSI and cancelled its order. In another case, we proposed a wastewater treatment project that will reduce waste safely, using water treatment facilities and water treatment chemicals. However, the customer changed its specifications for treating wastewater, using large amounts of industrial chemicals, and we failed to receive the order. Certain projects in general industries did not start because of the customers' management decisions.

The cancellations took place in the early design stage, and we had not started sourcing. Thus no expenses were incurred except for personnel costs and design costs.

Q. Will there be no cancellations of orders after the fiscal year ended March 31, 2014, or does the risk of cancellations remain?

A. Almost all the cancellations in the previous fiscal year were cancellations of orders that we received in or before the fiscal year ended March 2013. Given that, there may be a possibility of cancellations in future. However, we believe that there will be no further cancellations of orders involving large amounts.

Q. Did the cancellations of orders reflect economic conditions?

A. Many of the orders cancelled were orders in the electronics industry overseas. They were affected by semiconductors and LCD panel supply and demand conditions and changes in customers' production plans.

Q. Could you describe the reasons for the occurrence of loss-making projects?

A. In an intensified competitive environment, we accepted certain orders, underestimating costs. That is a temporary factor.

Q. The ratio of overseas sales is expected to be 20.6% in the fiscal year ending March 31, 2015. Is that the highest ever? Is there any target?

A. Although the ratio of overseas sales was the highest ever, this was achieved partly due to a

decline in domestic sales, and so we are not satisfied. We have been striving to expand overseas operations over years and aim to achieve over 30% at the earliest possible time.

Q. You said that you are seeking M&A, especially in North America and Europe. Why are you seeking M&A in North America and Europe? Could you tell us your progress?

A. We have only a weak presence and have a small market share in North America and Europe. However, North America is a large potential market, particularly in the Water Treatment Chemicals business. We have a base in Germany, which covers a wide area including Eastern Europe and the Middle East. We have a number of large markets to cultivate. In Europe and the United States, we seek to expand our results efficiently through M&A rather than trying to expand organically. We are always considering more than one M&A project, but there are not many companies that have a technological or sales network of the requisite size and that will generate synergies with us. Thus we may not be a position to conclude an M&A arrangement soon, but we are always considering more than one project. Another way to expand operations efficiently in each area is a marketing alliance including complementary supply; that is, complementing each other's product lines.

Q. Could you tell us about the development of the electrolyzed sulfuric acid generator business?

A. We received an order for an electrolyzed sulfuric acid generator in the fiscal year ended March 31, 2014 and plan to receive orders for three generators in the fiscal year ending March 31, 2015. We sold no electrolyzed sulfuric acid generators in the fiscal year ended March 31, 2014 and plan to sell one generator in the fiscal year ending March 31, 2015. We had a constraint: We had to use the customer's production equipment to assess the generator's effects on wafers. However, we have been concluding agreements with an incorporated administrative agency in Japan and the world's largest research institute overseas to assess the generator's effects. We will expand uses and develop operations.

Q. Your ROE has been falling from 11% six years ago. Don't you need to review your business portfolio? For example, shouldn't you consider withdrawing from the soil remediation business?

A. It is true that our results in our water treatment facilities business for general industries are weak, and you may think that we should withdraw from the facilities business. However, our strength lies in our ability to make proposals by striking a balance among three businesses—water treatment chemicals, water treatment facilities, and maintenance services—and combining them. We need the facilities business to provide optimum solutions to customers. Although our soil remediation business struggled in the past few years, orders rose in the fiscal year ended March 31, 2014, reflecting an increase in land transactions. We expect that the performance of the soil remediation business will improve partly due to the effect of the 2020 Tokyo Olympics.

Q. Could you tell us about changes in the domestic business environment for the water treatment chemicals business and maintenance services?

A. Domestic demand for water treatment chemicals is related to operating rates, capacity utilization, and production at our customers' plants. Domestic sales of water treatment chemicals started to recover around September last year and have been exceeding the year-ago

level. We expect that operating rates and production volumes at domestic plants, as indicated by the industrial production index, will rise steadily and thus think that the business environment is better than it was last year. Although we do not expect large capital expenditure in the domestic electronics industry, investment is continuing in the ultrapure water supply business. Maintenance services were put off, reflecting constraints in customers' budgets. However, favorable signs have been emerging since February or March. We guess that businesses have started to spend money as corporate earnings are improving. For example, although sales of maintenance services during the consecutive holidays in May were down from a year ago, when there was a flurry of replacements of high-end consumables, including ion exchange resin, reverse osmosis membranes, and ultrafiltration membranes, there were a number of small tasks, such as repairs of pumps and valves, and more plants and personnel were involved than last year, which was a favorable sign.

Q. Could you describe the operating rate of domestic plants in comparison with the rate before the Lehman crisis?

A. The industrial production index, using a base value of 100 in 2010, finally exceeded 100 this year. The operating rate is rising, especially in the steel and oil industries. Export quantities, which saw sluggish growth, are trending higher. We can say that the volume of production in Japan is increasing.

Q. Could you tell us about changes in the prices of water treatment chemicals and the competitive environment of the business?

A. There have been no significant changes in the domestic competitive environment. We submitted the largest number of patent applications among our competitors in the past year. We have some new products, including reverse osmosis treatment chemicals, cooling water treatment chemicals using a newly developed polymer, and boiler water treatment chemicals made only from food and food additives. We thus have an advantage.

Q. Could you describe your outlook for orders and sales of facilities in the electronics industry this fiscal year?

A. We expect that maintenance services for large facilities overseas, which have been emerging in the past few years, will continue to expand this fiscal year. Our sales forecast for facilities in the electronics industry is conservative, assuming very few sales other than those from the backlog of orders.

Q. Could you break orders for facilities in the electronics industry down into orders for semiconductors, orders for LCDs, and other orders and give a breakdown of your planned orders?

A. In the fiscal year ended March 31, 2014, orders for semiconductors, orders for LCDs, and other orders accounted for 32%, 36%, and 32%, respectively (excluding orders cancelled). In the plan for the fiscal year ending March 31, 2015, orders for semiconductors, orders for LCDs, and other orders account for 50%, 40%, and 10%, respectively.

Q. Is there any change in the profitability of the ultrapure water supply business? Is there any possibility of profitability declining if maintenance costs for facilities increase?

- A. There were no significant changes in profitability in the fiscal year ended March 31, 2014. Maintenance costs will be incurred over years, but we have factored these costs into our plan. Because high-cost consumables will be replaced in the fiscal year ending March 31, 2015, we estimate that costs will be slightly higher for the ultrapure water supply business.
- Q. Are there any changes in the number of contracts in the ultrapure water supply business?
- A. There has been no new construction on vacant sites, but expansion of facilities for NAND-type flash memories and small and medium-sized LCDs is increasing.
- Q. Your profit margin has been declining for the past few years even if loss-making projects in the facilities business are excluded. Could you describe the reasons?
- A. The profit margin has declined especially in general industries. One of the main reasons is a fall in overall sales. Since there have been no large capital outlays, we have been implementing a large number of small and medium-sized projects. However, we focused in the past few years on design for large-scale projects and construction management and did not execute small and medium-sized projects in a rational way. Since the previous fiscal year, we have been rearranging our personnel and enhancing our product lineup of standard products. We expect these initiatives to take effect from this fiscal year. As for maintenance services, the quantity of high value-added maintenance services was small in general industries. We aim to improve the profit margin by proposing high value-added projects, including the replacement of consumables.
- Q. Could you describe the advantage of having three functions: water treatment chemicals, water treatment facilities, and maintenance services? Does anyone in the company think this way: If the Water Treatment Facilities business does not make a profit, there will be no problem as long as the Water Treatment Chemicals business is profitable?
- A. A company that has only a water treatment chemicals business can address customers' problems with proposals related only to water treatment chemicals. In contrast, we can propose effective uses of water treatment chemicals in association with water treatment facilities. Our maintenance service staff can provide the best solutions to customers' problems by modifying facilities. We do not develop operations based on the idea that there is no problem if the Water Treatment Chemicals business is profitable. We manage our businesses so that each business will post an adequate profit.
- Q. Is there any possibility that you can improve your competitiveness by forming an alliance with a domestic competitor in the water treatment facilities business?
- A. We don't believe that there are any products or technologies of other companies in the water treatment facilities business that would generate significant synergies. We are not considering an alliance at present.

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