

Summary of Q&A Session at the Financial Results Briefing
for the Fiscal Year Ended March 31, 2015

Date and time: Thursday, April 30, 2015, from 4:00 p.m. to 5:00 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. Aren't you targeting an ROE of 8%? Will you be able to achieve an ROE of 8% in the fiscal year ending March 31, 2016?

A. We have targeted an ROE of 8%. However, the ROE has declined significantly over the past few years and could be affected by the acquisition in Europe. We will not achieve an ROE of 8% within the next year or two. For the time being, we aim to maintain an ROE level exceeding the cost of equity.

Q. What were the results of the businesses acquired in Europe like in FY2014 compared with the forecasts? Could you tell us your forecasts for the businesses in FY2015?

A. In FY2014, sales were slightly below the forecast (the sales were not consolidated). We forecast that net sales of 24.5 billion yen and an operating loss of 0.4 billion yen in the businesses will be consolidated in FY2015. We expect that the amortization of goodwill and intellectual property rights, etc. will be 1.7 billion yen. Except for the amortization, the businesses will record operating income of 1.3 billion yen.

Q. According to your plan, operating income in the Water Treatment Chemicals business, except the acquired businesses, will not increase significantly. Do you expect an increase in fixed costs in this situation?

A. Fixed costs are expected to increase slightly. However, the human resources we have added to our workforce have become effective, and the increase in fixed costs will slow.

Q. What are the ratios of semiconductors, LCD panels, and electronic components and others in orders for facilities for the electronics industry?

A. In the fiscal year ended March 31, 2015, the ratios of semiconductors, LCD panels, and electronics components and others in orders were 21%, 26%, and 54%, respectively, and the ratios in sales were 28%, 35%, and 37%. In the fiscal year ending March 31, 2016, the ratios in orders are expected to be 36%, 33%, and 31%, and those in sales are expected to be 19%, 40%, and 41%.

Q. What value of orders for water treatment facilities was cancelled?

A. In the fiscal year ended March 31, 2015, 6.6 billion yen's worth of orders were cancelled. We cancelled orders that may be implemented, but the implementation of whose contracts has faltered and is not expected to resume.

Q. Why did orders for facilities for the electronics industry fall below the plan?

- A. In the fourth quarter, almost 2 billion yen's worth of orders were cancelled.
- Q. Do planned sales of facilities for the electronics industry include a large amount of sales from orders to be received in the same fiscal year?
- A. We employ the percentage-of-completion method for orders of 100 million yen or more. Sales from the backlog of orders account for a larger percentage than sales from orders received in the same fiscal year.
- Q. What was the value of the backlog of orders for water treatment facilities for the electronics industry at the end of March 2015?
- A. 16.2 billion yen.
- Q. You have said that a decline in sales due to the expiration of contracts in the ultrapure water supply business will be 7.6 billion yen maximum in the next three years. Specifically, what projects will expire?
- A. A contract for a project at a domestic LCD panel plant will expire in December this year. At present, we plan to change the contract to an operation & maintenance contract and expect to record sales that will be around 60% of the current level. A contract for a project at a domestic semiconductor plant expired in March this year.
- Q. Could you tell us a breakdown of the uses of an operating cash flow of 81 billion yen for the next three years?
- A. 17 billion yen for dividends, 30 billion yen for capital expenditure, and 34 billion yen for M&A and stock repurchases.
- Q. Could you tell us your analysis of changes in operating income in the fiscal year ending March 31, 2016?
- A. A rise in sales, an increase in profitability, and other factors will add to operating income 8.3 billion yen, 2.5 billion yen, and 0.3 billion yen, respectively. On the other hand, selling, general and administrative expenses will increase 11 billion yen. Overall, operating income will rise 0.1 billion yen.
- Q. Of the 11 billion yen increase in selling, general and administrative expenses in the fiscal year ending March 31, 2016, how much will be accounted for by selling, general and administrative expenses at KEAG?
- A. 8.9 billion yen.
- Q. Could you tell us shares in the global water treatment chemicals market?
- A. Ecolab Nalco has the largest share, 20%, followed by GE, whose share is 10%, and Solenis, Kemira, and Kurita, whose share is less than 10%. We are competing for 5th position, and our market share is 7% to 8%.
- Q. Why did operating income in the Water Treatment Facilities business exceed the plan?
- A. Because of an increase in sales, an improvement in the cost rate, and a decrease in selling, general and administrative expenses.

Q. Could you tell us your outlook for results in FY2017 at KEAG, which you acquired in Europe?

A. Net sales will stand at 27.9 billion yen. Operating income after the amortization of goodwill and intellectual property rights will be 0.1 billion yen. The amortization of goodwill and intellectual property rights, etc. will be 1.7 billion yen.

Q. You have said that capital expenditure for projects, both at new plants and existing plants, in the ultrapure water supply business that is expected to record sales in the next three years will be 18 billion yen. Capital expenditure of 13 billion yen is planned in the fiscal year ending March 31, 2016. Does this mean that the level of capital expenditure will be low in the fiscal year ending March 31, 2017 and the fiscal year ending March 31, 2018?

A. The figures are aggregates of expected capital expenditures at present, and actual figures may be more.

Q. Does your plan for the ultrapure water supply business include figures for overseas projects other than the SK Hynix project?

A. No figures for overseas projects other than the SK Hynix project are included. If we expect to secure profitability, considering individual projects and country risks, we may launch overseas projects.

Q. When will you carry out M&A in North America? Is there any possibility of M&A in areas other than North America?

A. We are putting priority on North America and considering acquisitions and alliances. We cannot comment on the timing of acquisitions and alliances because we need to consider our counterparties' plans. We will actively consider M&A plans in areas other than North America, including Japan, if we expect synergies and contributions to growth.

Q. If there is no progress in M&A in the next three years, will you possibly acquire treasury stock?

A. We prioritize investment for growth. If we decide that we have excess funds, we will consider increasing shareholder returns.

Q. The operating income margin of KEAG, which you have acquired in Europe, in FY2017 was only around 6.5% before the amortization of goodwill and intellectual property rights, etc. Does this mean that the acquisition has increased the size of your business but it will take time for the acquisition to contribute to your earnings?

A. We do not anticipate any significant synergies in the next three years and expect that contributions to earnings will start in the fiscal year ending March 31, 2018. These are minimum expectations. We expect considerable synergies in terms of the mutual supply of products and research and development.

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