

Summary of Q&A Session at the Financial Results Briefing
for the First Half of the Fiscal Year Ending March 31, 2017

Date and time: Tuesday, November 1, 2016, 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. You had expected a slowdown in demand for applications in the semiconductor and liquid crystal display segments from the beginning of the fiscal year. Was the slowdown in facilities orders received for the electronics industry in the first half in line with your initial expectations? Heading into second half, will orders weaken or will they level off?

A. The results as a whole were in line with our initial projections, although we saw some variance amongst customers in all three segments: semiconductor, liquid crystal display and electronic components. We expect LCD orders to be relatively strong while we are likely to see more variance amongst electronic component customers.

Q. What was the breakdown for hardware between semiconductor, liquid crystal display and electronic components in the first half, in terms of both orders and sales?

A. The breakdown was 3:4:3 for orders and 3:6:1 for sales.

Q. Will KWSS contribute to the business performance of the next fiscal year? Why did you start the service now? What are your expectations for profitability?

A. The number of contracts will likely be for 12 units in the fiscal year ending March 2017 and the total value for the full life of the contracts is expected to be slightly over 200 million yen. We had been developing the service but given advances in sensor technology and other areas, we felt it was now ready for commercialization. Depending upon contract terms, there are some KWSS projects that have better profitability than large-scale facilities.

Q. The full-year forecast for operating income for the electronics industry water treatment facilities was revised down by 2.6 billion yen. What is the breakdown by key contributing factors, such as the ultrapure water supply business, overseas business, SG&A expenses and others?

A. We do not disclose the breakdown by factor. We revised down sales for the ultrapure water supply business by 3.6 billion yen; this will likely have an impact on profits to a certain extent. There were some decreases in SG&A expenses due to the higher yen. Although we have also revised down operating income for the overseas business, the expected decline in profits in the ultrapure water supply business may be partially offset by moves in the overseas business.

Q. What were the first half growth rates by region in the overseas water treatment chemicals business? What are the full-year forecasts? Also, what was the performance of KEAG?

A. In yen terms, the growth rates in the first half were a decline of 7% in Asia, a rise of 16% in North America, an increase of 12% in EMEA and a decrease of 22% in other regions. For the full year, we expect a decline of 9% in Asia, a rise of 13% in North America, a decrease of 2% in EMEA and a decrease of 6% in other regions. We cannot disclose the individual performance of KEAG because it was integrated into the already existing KEG as of April 1, 2016. However, net sales were 2 billion yen lower than our initial projection, and we expect operating income (after amortization of goodwill and technology-related assets) to be slightly in the red, a little short of our initial plans.

Q. How are sales of water treatment chemicals in Asia, and what is the outlook for the next fiscal year, in qualitative terms?

A. Our focus in Asia is on China and Southeast Asia. The business started to decelerate around the second quarter, and we see a similar trend in the third quarter. We do not expect to see significant growth next year.

Q. We have seen no sign of improvement in the profitability of the water treatment facilities for general industries, and no sense of speed. Will this business improve in the future?

A. We recognize that enhancing profitability is a pressing issue. We are currently implementing a more disciplined approach to both order intake and production. If these initiatives do not deliver results, we will consider other possibilities, including making changes in the business structure.

Q. Are soil remediation services profitable? Which segment in general industries is not profitable?

A. Soil remediation services are profitable. Our focus is on achieving profitability at the OP level; we have seen some improvements. The area that is not profitable is the outright sale of hardware to industrial complexes, where business conditions remain challenging.

Q. Why did you revise down your initial forecasts for improved profitability in the overseas electronics business? Also, what are the growth projections for maintenance services in the future?

A. On the back of an increase in large-scale installations, we had expected an increase in maintenance revenues to contribute to improved profits. However, maintenance service revenue did not grow as much as we initially anticipated. In some regions, installation of facilities did not lead to highly profitable maintenance service business. Demand for maintenance services was also significantly affected by individual customers' business conditions. It is also true that profitability of large-scale water treatment hardware is still challenging.

Q. Did the overseas electronics industry water treatment facilities business contribute to operating income as a whole?

A. We are currently working to improve the business so that it can contribute positively to operating income.

Q. What were the actual sales to Sharp Corporation in the first half of the fiscal year?

A. We did not disclose the figure because sales to Sharp Corporation were less than 10% of the consolidated net sales, the threshold level for disclosure.

- Q. Regarding the 3 billion yen sales decline as a result of reviewing contracts in the ultrapure water supply business, how many months does it represent? Is it only for the second half of the fiscal year?
- A. There was also a small impact on first half revenues.
- Q. How should we view sales in the ultrapure water supply business in the next fiscal year?
- A. We extended the contract period for the contracts under review, thus reducing revenue on a single year basis. There will be a slight impact on revenues for next fiscal year. Subsequently, however, we will focus on new investments to grow revenues.
- Q. How are the contract extensions in the ultrapure water supply business this time different from previous extensions?
- A. They are the same. We secured our earnings by extending the duration of the contracts.
- Q. Is there a possibility that these revised contracts in the ultrapure water supply business will be reviewed again?
- A. We cannot say for sure, but we believe that there will be no further change because the present situation is based on an agreement reached with the customer.
- Q. Is the downward revision to initially forecasted increases in the ultrapure water supply business a reflection of a decline in profitability or a temporary factor resulting from the increase in overseas business?
- A. The difference of 600 million yen from the initial forecast is due to a shortfall in variable revenue versus expectations. This is the result of lower-than-expected customer utilization rates, rather than a decline in profitability. In the ultrapure water supply business, we set a hurdle rate to monitor the profitability of investments. There is no change in the profitability.
- Q. Is the upward revision in the capital investment plan for the ultrapure water supply business associated with any projects for the domestic NAND flash industry?
- A. The major projects are mainly outside Japan. We also have smaller projects for both the semiconductor and liquid crystal display segments in Japan.
- Q. Is the additional project in the overseas ultrapure water supply business an order over and above the order from SK-hynix Inc. which was announced in a press release?
- A. We received an order other than the previously announced SK-hynix Inc. order.
- Q. Is capital investment for the ultrapure water supply business likely to increase in the next fiscal year compared the current fiscal year? Or, will this year be the peak?
- A. There is the possibility of OLED-related investments, and there are potential projects outside Japan. If such projects materialize, capital investments will likely increase YoY.
- Q. The full-year forecast for operating income for the water treatment facilities business was revised down by 2.5 billion yen compared to the initial plan. Can this be solely explained by the

downward revision of 3.6 billion yen in ultrapure water supply revenues?

- A. The profitability of the overseas water treatment facilities business did not recover to the degree we initially anticipated. It does not mean that there is a new unprofitable project.

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