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

Date and Time: May 2, 2017 (Tue.) 15:00 - 16:00
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. Can you provide the breakdown of orders and sales for electronics industry hardware, between semiconductors, Liquid Crystal Display (LCDs) and electronic components, for FY2016 and the guidance for FY2017?

A. For FY2016, the breakdown for orders in the order presented above was 2:5:3. Sales was 3:6:1. For FY2017 guidance, the breakdown of orders is 5:5:0 and for sales is 4:4:2.

Q. In your FY2017 forecast for electronics industry hardware orders, you appear to be guiding for 2H orders to be slightly lower than 1H. Are you trying to factor in the possible risk of a slowdown in 2H?

A. No, our forecast is based on the visibility we have now. Our guidance does not factor in the risk of a slowdown in 2H.

Q. With regard to the Ultrapure Water Supply (UPWS) business, given the limited number of customers in South Korea, how do you propose to grow this business going forward? What are your plans for this business in China?

A. There are currently three customers for the UPWS business in South Korea. Of these three, the largest already has plans for its next round of investment. The focus of our growth in South Korea will be with this customer. We would also like to expand our business in South Korea by winning new customers in locations where we can provide services efficiently from our current base.

We are considering the UPWS business for China. Our goal would be to work with customers that find our value proposition attractive, in terms of how our service contributes to the smooth and uninterrupted running of production facilities. That said, we must be prudent in considering potential risks.

Q. What are your objectives in investing in APANA Inc.? Can you share specifics such as revenue scale?

A. APANA is currently focused on retailers as a customer base. It has strengths in sensing, near field communications and big data analytics. In the US, APANA already got more than 600 contracts from retail outlets. For us, APANA gives us an entrée into retailers. Beyond this, our aim would be to develop a business targeted at manufacturers, which we could then expand in the US and other regions. At this stage, we are not disclosing specific revenue targets.

Q. What is your objective in establishing an R&D facility in Singapore?
A. We aim to accelerate our R&D, focusing on joint research projects with Singaporean universities on membrane processing and water recycling, to capture local demand.

Q. In the Water Treatment Chemicals business, your FY2017 forecast for profit growth is low relative to the expected sales growth, even excluding the impact of Fremont Industries, LLC. Why is this?
A. This is because we do not expect a profit contribution from KEG; we expect KEG to only break even in FY2017.

Q. In the Water Treatment Chemicals business, is there upside potential from synergies with KEG?
A. We had already started to see some results from sales of KEG products in the domestic and Southeast Asian markets from 2H FY2016. We believe there will be upside in these regions.

Q. How do you view the increasing adoption of IT in the European and US markets, and what are your plans in this field? Also, how are you thinking about investments in your service network over the medium term?
A. With regard to the rising adoption of IT in the Water Treatment Chemicals business, Japan is the furthest ahead globally in this field. The first challenge is determining how to apply the technology to deliver better efficiencies. Initiatives in the US and European markets would be the next step. We hope to start by working with large-scale customers such as petrochemicals players.
With regard to our service network, we have full coverage of Europe, with the exception of the UK. We recognize that we have more to do in the US. We will continue to make acquisitions to build out a base in the US.

Q. Can you provide the FY2016 actuals and FY2017 forecast for intangible asset amortization, please?
A. FY2016 was ¥2.6 billion. FY2017 guidance is ¥2.9 billion.

Q. You have announced ¥14 billion in capex plans for UPWS business. Please provide the breakdown between domestic and overseas.
A. Since this is directly tied to specific projects, we cannot comment. That said, domestic will be larger than overseas.

Q. With regard to M&A in North America, what do you think would be the maximum possible cash outlay in FY2017?
A. Any M&A transaction is a negotiated process between two parties so it is not solely up to us. I will say that the maximum would be larger than what we spent on Fremont.

Q. You have talked about your intent to expand the UPWS business and other service business models further in high tech industries overseas, as well as non-high tech fields in the domestic market. Looking back over the 12 months since you became president, how do you view the response from within the company?

A. Since I became president, I believe we have seen a gradual embrace of the shift toward service-based models, although, the pace has been a little slower than I had initially anticipated. In April, we established a global business headquarters integrating oversight of the overseas water treatment chemicals and water treatment facilities businesses. By eliminating the internal organizational barriers, we aim to develop new business models for services that tap into opportunities in the overseas markets. I intend to accelerate the pace of change going forward.

Q. How have customers responded to proposals of service-based models, either high tech customers overseas, such as in China, or domestic non-high tech customers?

A. In China, given that the government provides funding for high tech investments, proposals for services where the benefit to the customer is that Kurita takes on the burden of investment do not seem to be very attractive to customers. However, Chinese customers are responding positively to proposals of service business models for the reclamation of industrial waste water, reflecting the high unit cost of water. I think we have more to do in improving the products that can be effective in helping us tap into the market. I also believe that it would be challenging to simply apply the existing service business model as is; service business models will need to be adjusted as well. For Korea, our existing customers have a high degree of confidence in our capabilities. I believe there is plenty of room to expand our business as new fabs are built.

For general industry in the domestic market, there are fields such as pharmaceuticals, where there is a need for a high level of water production. There are also manufacturing fields that require huge volumes of water. We need to develop services that match the needs of such industries. My impression is that getting customers to move to a service model is still challenging.

Q. Hypothetically speaking, if customer response to service business models is good and you need to increase capex, would you be prepared to take on more leverage to do so? Also, how fast does the migration to service models need to happen in order to double OPM?

A. If there were capex needs where cash on hand was insufficient, then I would be prepared to increase leverage. In the next medium-term management plan, I want to target an OPM of 15%, driven by the shift to service business models. I would like to discuss improving profitability further, including rebuilding the businesses that are currently low margin, in our next medium-term management plan.