

Summary of the Q&A Session at the Financial Results Conference Call
for the Third Quarter of the Fiscal Year Ending March 31, 2018

Date and Time: February 1, 2018 (Thu.) 11:00-11:40

Notice: This summary is a reference designed for the convenience of those who could not attend the financial results conference call 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. Please comment on what led to the overshoot in orders and operating profits for hardware sales for the electronics industry in Asia.

A. In Asia, we continued to see higher-than-expected levels of large-scale semiconductor and FPD orders. In addition to the increase in the absolute number of projects, our customers' assessment of our capabilities has improved on the back of our growing track record. We believe that this has led to a higher level of conversion of inquiries into firm orders. The improvement in profits is a function of higher revenues.

Q. Did higher crude oil prices push up your costs?

A. The impact on costs came through primarily in our Water Treatment Chemicals business but, so far, it has not been significant. There is a time lag between changes in crude oil prices and the impact on our costs.

Q. You mentioned increases in labor costs and IT expenses in the Water Treatment Chemicals business. Could you talk about how much you had initially expected such costs to increase and the progress you have made to date?

A. Expenses are not running ahead of our initial expectations. We have been proactively hiring to expand our overseas business. On the domestic side, we are focused on developing a solutions-based approach for the newly integrated Water Treatment Chemicals and Maintenance businesses. There will be a time lag before we see higher revenues and improved profitability as a result of the increase in investments. Therefore, we believe that Q3 profitability was slightly weaker. We expect to capture the benefits of the increased expenses in the form of higher profitability in Q4 and beyond.

Q. Please talk about your Asia and European businesses in the Overseas Water Treatment Chemicals business.

A. Asia was up 3.5% in yen terms in Q3 YTD, while EMEA was up 5%. North America increased 9-fold on the back of new consolidations.

Q. Can you disclose the sales and operating profit attributable to Fremont for the December quarter within the Water Treatment Chemicals business?

A. Sales were approximately ¥0.9 billion in yen terms. We broke even at the operating income level, before goodwill amortization.

* Our overseas businesses operate on a calendar year basis.

Q. Did domestic Water Treatment Chemicals sales increase YoY in the December quarter?

A. Revenues were up 2.3%.

Q. You are guiding for ¥248 billion in orders for FY ending March 2018. If you take into account production capacity and lead time, can you talk about how much of this year's orders will be recognized as revenue in FY ending March 2018? If it is difficult to talk about specific figures, a qualitative comment would be helpful.

A. We are currently formulating our forecasts for the next fiscal year. However, we are seeing improved production efficiency at both domestic and overseas plants so we would expect to generate revenues of a similar level to the level of orders for FY ending March 2018.

Q. You have revised up your order guidance for China and Korea but what are your expectations for profitability? Also, are you assuming that this business will consist of outright sales of hardware or is there a possibility that orders could include revenues from other business models?

A. Profitability on individual orders at the time of order intake is unchanged, but we would expect overall profitability to improve on the back of higher revenues. With regard to the type of sales we are expecting, in China, given subsidy programs for investments, it is unlikely that these orders would take the form of Ultra pure Water Supply (UPWS) contracts. Most likely, we will be proposing a combination of EPC plus maintenance and operation contracts.

Q. Are margins for combined EPC plus operations and maintenance contracts similar to UPWS margins? Or, are they closer to the margins you generate on outright sales of hardware?

A. By combining services with outright sales of hardware, we aim to get close to the margins we generate on UPWS.

Q. Please discuss the capacity utilization of your customers in the Water Treatment Chemicals business during the December quarter. For example, did capacity utilization in China decline on the back of tightening environmental requirements? Was there an impact from the decline in smart phone production?

A. I believe that the operating environment has not significantly changed from the situation we described as of the end of H1. We have not seen declines in capacity utilization at either our domestic or overseas customers.

Q. Are Water Treatment Chemicals sales in China recovering?

A. The December quarter was solid; on a local currency basis, revenues were up 9% YoY.

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