Summary of the Q&A Session at the Financial Results Briefing
for the First Half of the Fiscal Year ending March 31, 2019

Date and Time: November 12, 2018 (Mon.) 15:30 - 16:30
Venue: Belle Salle Tokyo Nihonbashi

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. Given the challenging operating environment for the electronics industry, what is your view of overseas demand for water treatment facilities going forward?
A. While orders rose in 1H, we have heard talk of capex delays in 2H and beyond. That said, we believe any decline would be modest. We do not expect to see a substantial slowdown.

Q. The progress rate on capex for the Ultra-pure Water Supply (UPWS) business appears lower than last year. Have operating plans at your customers' plants changed since 1Q?
A. Capex demand for the domestic electronics industry as a whole is strong. Progress on capex for the UPWS business is in line with plan. We expect to see high levels of capex continue into next fiscal year.

Q. With regard to the additional costs incurred in 2Q, is this due to a further deterioration of the projects cited in 1Q or have cost issues emerged at other projects? How much do you expect to incur in additional costs in 2H?
A. The additional costs incurred in 2Q include costs from other projects. Production continues to be very tight even now, but we have taken measures, such as allocating additional human resources as well as providing IT and procurement support. We expect to incur a lower level of additional costs in 2H relative to 1H. Our 2H forecast assumes several hundreds of millions of yen in additional costs.

Q. Why was there an overshoot in 1H water treatment facilities orders? Is it a reflection of increased inquiries or were there inquiries that you chose to recognize as a result of a higher level of confidence? Or, did the scale of expected projects get larger?
A. Our domestic electronics industry customers have multiple capex plans and have been accelerating the pace of investment. The elevated level of orders reflects higher-than-expected demand. We saw many additional orders from a wide range of electronics customers.

Q. Did the extremely hot summer conditions drive higher sales of cooling water treatment chemicals?

A. We did see increases in air conditioning applications. However, despite the hot temperatures, capacity utilization rates at our customers were lower on the damage from torrential rains and earthquakes. As such, we did not particularly benefit from the hot summer temperatures.

Q. You have previously talked about scaling back low-margin businesses. Currently, how much of your business would you consider low-margin?

A. We have a goal to achieve a 15% OPM. I believe achieving this would be challenging for about 10% of our overall business. However, if we are able to successfully transition to service contracts or recurring business models, I believe we can improve margins on these businesses. By reorganizing the sales force for the domestic water treatment chemicals business and other bold measures, I think we can improve profitability.

Q. Please provide the 1H results and your full-year forecasts for orders and sales for the China business. Could you also tell me how much of the China business is for electronics?

A. 1H orders were ¥14 billion, of which water treatment facilities for electronics were ¥9.5 billion yen. The full-year forecast is ¥24 billion, of which facilities for electronics are slightly more than ¥15 billion. 1H sales were ¥15 billion, of which electronics facilities were slightly more than ¥10 billion. The full-year sales forecast is ¥27 billion yen, of which electronics facilities are slightly more than ¥18 billion.

Q. How do you view the China market? There are many factors to take into account, such as trade friction with the US and the slowdown in FPD-related activity on the one hand, but very active investments in semiconductors on the other.

A. Even if we were to see delays to projects because of short-term uncertainty, investments in semiconductor and wafer production capacity are part of central government policy. As we saw with FPD investments in the past, we would expect semiconductor-related investments to continue for 10 years.

Q. Why did you chose not to take a majority stake in Pentagon Technologies?

A. While the current owner was very keen to work with Kurita Water Industries, he also wanted to see the business grow further before selling.

Q. You have a medium-term management plan target for an OPM of 15%. Has Pentagon Technologies already achieved this level?

A. Our understanding is that profitability is higher than our medium-term target level. Pentagon has technological strengths that can be applied in new semiconductor fabs; we have high expectations for Pentagon's growth potential in China.

Q. You took a stake in Silicon Valley start-up Fracta. Will you be able to develop a relationship that will contribute to a change in Kurita's corporate culture?

A. We are planning to second employees to Fracta, through an open invitation to all group employees for applications. We hope the opportunity to become part of the Silicon Valley community as an insider will indeed stimulate changes in our corporate culture. However, we are still at an early stage at this point.

Q. Could you disclose how much of your sales are generated from service contracts or recurring business models and what are the margins? Could you also share some specific examples with us?

A. Historically, at the non-consolidated level, we have been generating around ¥3 billion in revenues from the water treatment chemicals business under service contracts. However, these contracts stipulated specific products and services, so profitability was not high. The models I referred to earlier are contracts where we provide a solution and share the value generated with our customers. We expect this will generate higher margins. I would like to convert 30% of the water treatment chemicals business into high-margin service contracts.

Q. Should we expect to see contributions from these higher margin service contracts in around 3 years' time?

A. We already have some specific contracts in place along the lines of what I have described today. In addition, for those industries which use large volumes of water or heat in manufacturing, we see opportunities to create solutions that combine water treatment chemicals and facilities. We would like to develop a number of applications which we can then expand in the domestic and overseas markets. In April of this year, we established the Solution Business Division, which spans individual business lines and has been tasked with developing services. The examples that I talked about today have been developed by this new team.

Q. Did you not have opportunities to propose such solutions on the back of large-scale EPC projects in the past?

A. To date, our approach had been less proactive. After completing an EPC project, we waited for the opportunity to propose maintenance work. Going forward, we aim to package the accumulated expertise developed through 15 years of UPWS business operations, and will propose these solutions when we win large-scale EPC orders.

Q. Will there be organizational changes to support a shift to a solutions-based model?

A. The department developing initiatives for the main target markets of China and South Korea, the Solution Business Division and departments that leverage ICT are now in exploratory discussions. We are still developing the specific format of proposals.