

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

Date and Time: February 12, 2019 (Tue.) 11:00 - 11:45

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. With regard to orders for water treatment facilities for the electronics industry, please comment on recent conditions by application. Has there been bad news, such as cancellations?

A. Our understanding is that orders from China and South Korea, primarily in semiconductors, have been pushed out rather than cancelled. On the domestic side, conditions are firm for both electronic components and semiconductors.

Q. Subtracting nine-month water treatment facilities' overseas orders from the full-year forecast implies 4Q orders of just ¥1 billion. Is the situation as bad as this figure suggests?

A. Our forecasts are slightly conservative.

Q. What was the growth rate for nine-month overseas water treatment chemicals' revenues in local currency terms?

A. Overseas sales of water treatment chemicals grew 9.5%, excluding the impact from the newly consolidated Hansu Co., Ltd. and Fracta. This is in line with plan.

Q. Please comment on capacity utilization levels at your customers for the water treatment chemicals business in Asia. Could you also discuss whether you have won new projects and whether stricter enforcement of environmental regulations in China has had an impact on your business?

A. Conditions in China, which account for a significant proportion of Asia sales, remain largely unchanged from last year. We have not seen significant declines in capacity utilization at our customers. Tighter enforcement of environmental regulations has not impacted earnings. We view this as an opportunity for Kurita.

Q. What is the OPM level for U.S. Water Services, Inc. (hereafter U.S. Water)? What was the EV/EBITDA at the time of the acquisition?

A. What I can say is that the OPM is largely in line with the margin generated by the Kurita Group's overseas businesses. The EV/EBITDA multiple was not a single-digit multiple; it was in line with market valuations on transactions for U.S. water treatment chemicals companies.

- Q. Can we assume that U.S. Water's businesses are similar to Kurita's?
- A. In terms of products, there are no major differences in the lineup of products currently handled by the Kurita Group. However, U.S. Water does have some items that the Kurita Group did not have, such as chemicals used in bioethanol refining.
- Q. Did the acquisition of U.S. Water give you access to business areas that you were unable to reach through Fremont?
- A. That was not a consideration for this transaction. We were able to establish a platform through Fremont. This transaction gives us a bigger platform. The transaction is aligned with our overall strategy.
- Q. When do you expect to close the U.S. Water transaction?
- A. We cannot disclose specifics but assuming we make good progress, we would hope to close sometime in March.
- Q. After the closing, your cash balance will decline. Your shareholder return policy has been to continuously raise the dividend: will this change?
- A. Our policy on shareholder returns, including dividends, will not change.
- Q. What will your market share be in North America following the acquisition of U.S. Water?
- A. Slightly less than 5% in water treatment chemicals.
- Q. In considering further acquisitions, are you looking for companies of a similar scale? Would you consider larger-scale candidates?
- A. Our top priority is to focus on integrating U.S. Water. Going forward, we will likely focus on companies with distinctive technologies.
- Q. Will the U.S. Water management team stay on?
- A. That is the plan.
- Q. Excluding the impact of M&A, what was the organic growth rate for sales at U.S. Water over the last 3 years?
- A. We do not disclose the growth rates for either the water treatment facilities or water treatment chemicals businesses. However, growth from sales of water treatment facilities was driven by M&A. The driver of organic sales growth was the water treatment chemicals business.
- Q. You expanded the application of the percentage-of-completion method in the water treatment facilities business. How large will the impact be on a full-year basis this fiscal year?
- A. Given how difficult it is to project, I can provide only a relatively wide range: I estimate a sales impact of between ¥3 to 5 billion. The profit impact is likely to be around 15% of the topline impact.

Q. Looking at 3Q on a standalone basis, if we subtract the impact from the expanded application of the percentage-of-completion method, the underlying profitability of the water treatment facilities business appears to have improved on a YoY basis. Please comment on why the margin improved and whether this positive impact can be sustained into next fiscal year?

A. The key driver is the impact of higher revenues. We would expect the push-up to sales to continue going forward but the impact from the expanded application of the percentage of completion method will drop out in the next fiscal year.

Q. In 3Q, you posted an extraordinary loss, taking an impairment loss on the goodwill from Kurita Water Industries (Jiangyin) Co., Ltd. Please comment on the background to the impairment loss. Also, how much goodwill remains and how will this write-down impact the annual amount of goodwill amortization?

A. As a result of stricter enforcement of environmental regulations in China, we have plans to move the production plant for this subsidiary, hence the impairment loss. Total annual goodwill amortization is ¥1.7 billion. The impact of the write-down on annual amortization is minimal.

Results forecasts presented and other statements relating to the future made in this document are based on information currently available and certain assumptions the Company considers reasonable. A variety of factors may cause actual financial results and other forward-looking statements to differ materially from the forecasts.