

Summary of the Q&A Session at the Financial Results Briefing  
for the First Half of the Fiscal Year ending March 31, 2020

Date and Time: November 12, 2019 (Tue.) 10:00 - 10:50

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. Please disclose the level of expenses you have assumed for the integration of the North American water treatment chemicals business.

A. For the newly consolidated subsidiary, we have factored in a ¥1 billion impact from PPA in our 2H segment profit forecast. We have also included PMI expenses in other expenses.

Q. While the 1H operating profit margin was high, full-year guidance implies a lower profit margin in 2H. Do you have concerns about a deterioration in the 2H CoGS ratio?

A. Our assumption for the water treatment facilities segment's 2H CoGS ratio is conservative, rather than a reflection of concerns. However, the forecast for the water treatment chemicals segment is not that conservative; we have factored in an increase in SG&A.

Q. Please discuss conditions for the overseas water treatment facilities business for the electronics industry by region, broken out into FPD and semiconductors.

A. Our impression is that conditions differ by customer. In China, there were some FPD projects where investment decisions were relatively early, but on the other hand, there were some semiconductor projects that were pushed out as a result of US-China trade tensions. Our overall impression is that FPD is slightly weak but semiconductors are likely to start picking up.

Q. You mentioned that it now looks like electronics industry investments in South Korea will increase. What is the background to the change?

A. There are customers making investment decisions now as a function of their respective strategies. Kurita Water Industries' added value is its ability to ramp up rapidly. We are prepared to move quickly if asked.

Q. You indicated that within the domestic water treatment chemicals segment, the business for the steel-making industry was strong. Could you discuss conditions for some of the other industries, such as pulp & paper?

A. In the domestic market, our focus since last year has been on putting service contracts in place, in addition to initiatives to improve unit prices through price hikes. Service contracts for our pulp & paper customers have increased as well. It may be a little difficult to see the growth in service contracts because of our current counting system.

Q. For total solutions and the value of the benefit to customers, is the figure cited the value calculated by your customers or is it based on your estimates in consultation with your customers?

A. Quantifying the value of the benefit to the customer is the key consideration for total solutions. However, the value cited is neither our estimate nor a value calculated by our customers. Instead, it is the value that emerges as a result of the visualization process.

Q. In the example presented this time, are the facilities necessary for providing the service Kurita Water's assets?

A. The service contract is based on our ownership of the control equipment and sensors.

Q. In both the 1H results and the full-year forecasts you have been able to control costs. How are you able to control these costs?

A. We are in the midst of trialing many measures to control costs. What is different this time is that as we migrate toward service contracts, we have focused on ensuring we have a good grasp of the profit base. We are now better able to track costs in greater detail.

Q. Are you making progress in structurally reducing fixed costs?

A. There are still businesses within the portfolio that generate low margins. There are also some facilities that are quite dated. We would like to address these in the early stages of the MVP-22 plan and believe this will result in lower fixed costs going forward.

Q. Earlier, you mentioned that there was a change in distribution for the water treatment chemicals business in China. What is your view of the changing operating environment?

A. The change in distribution referred to earlier was a decision to cease handling low-margin products. This measure will contribute to higher profitability. In China, we believe that demand for contract-type services to supply recycled water will grow. This will be an area of focus.

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