

Summary of the Q&A Session at the Financial Results Briefing  
for the Third Quarter of the Fiscal Year ending March 2020

Date and Time: February 12, 2020 (Wed.) 11:00 - 11:45

Notice: This summary is a reference designed for the convenience of those who could not attend the financial 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. With regard to the operating environment for water treatment facilities for the electronics industry, please discuss customer trends by industry segment. Also, please talk about which industry segment you have expectations for in terms of 4Q orders.

A. The outlook for the overseas operating environment remains uncertain. In China, there have been delays announced for some semiconductor capex, in addition to concerns about the impact of the coronavirus outbreak. For China FPD, there does appear to have been some progress on OLED investments. In Korea, there are signs of a recovery in semiconductor capex, with progress on multiple investment projects. Domestically, orders and sales have been slowing down but customer appetite to invest remains strong.

Q. What have you decided to do in response to the coronavirus outbreak as it relates to your operations in China?

A. We will follow the instructions of the Chinese regional governments with regard to restarting operations following the Chinese New Year break. With regard to the impact on our earnings for this fiscal year, we are in the process of collecting and reviewing information. Our current forecasts do not take into account any impact from the outbreak.

Q. Can you talk about the organic factors that contributed to the improved CoGS ratio for the water treatment chemicals segment?

A. The improvement reflects growth in overseas sales in local currency terms, the reduction of low-margin products and progress in raising domestic prices. Going forward, we will continue to work on raising prices, but we also expect to benefit from an increased contribution from total solutions.

Q. Is Pentagon Technologies' business limited only to the US domestic market? Also, please explain the difference in technologies between Pentagon and Kuritec Service, and the combined market share.

A. Pentagon focuses primarily on the tool cleaning business in North America. Kuritec Service cleans jigs for SPE equipment that is already installed. Pentagon, in addition to this, has strengths in SPE cleaning at the time of initial equipment installation. We do not have accurate data to share with regard to market share.

Q. Is it possible that Kuritec Service could offer Pentagon's technology in the domestic or Asian markets?

A. For now, we do not have specific plans but it is possible that we could leverage the technology in the Japanese market.

Q. Can you tell us Pentagon's margin level and 2019 sales?

A. I can tell you that Pentagon has a double-digit business profit margin. I do not have 2019 sales figures yet, but sales have been growing YoY over the last few years.

Q. There hasn't been much information flow on Fracta. Could you provide an update of current conditions?

A. For the first 9 months of the fiscal year, orders and sales were several hundreds of millions of yen. On profitability, it was slightly in the red. Our objective in acquiring Fracta was to leverage Fracta's AI/ML technologies in our business. In the next fiscal year, we will make organizational changes to enhance our efforts in digital technology, IT and IoT.

Q. I believe that you have been making organizational changes to support a total solutions approach and to eliminate a silo mentality. Please talk about the impact you are currently seeing from the changes you have made.

A. Our plan for total solutions was to focus initially on developing models before deploying. We have already started work on 7 models. The current contribution to earnings is still limited but we expect to see profit contributions from the next fiscal year.

Q. Is there a possibility that you might sell treasury stock to fund the building of new R&D facilities?

A. We have no plans to do so.

Q. When do you expect to sell the land?

A. We are currently in negotiations but it is possible that we could have a contract in place before the end of the current fiscal year. If this happens, there is a possibility that we might recognize losses on the sale of land in the current fiscal year. At this time, I cannot discuss potential scale with any degree of accuracy.

Q. How much of an impact will there be from the sale of the alumina business last fiscal year?

A. In the last fiscal year, we posted ¥2.8 billion in losses from the business transfer. In this fiscal year, the negative impact on sales is ¥1.2 billion but the impact on profits is zero.

Q. Why did the water treatment chemicals business report profit declines for the 3Q (December quarter)?

A. Profit fell as a result of sales declines in both the domestic and overseas businesses, and the weak performance of the newly consolidated subsidiaries.

Q. The SG&A ratio has been creeping up over the last few years. What is the right image for the SG&A ratio in the next fiscal year?

A. Basically, it should be in line with this fiscal year's level.

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