

Summary of the Q&A Session at the Financial Results Conference Call
for the First Half of the Fiscal Year Ending March 31, 2022

Date and Time: November 1, 2021 (Mon.) 11:00 - 12:12

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. How much of an impact is there from rising raw materials prices?

A. In 2Q, prices for raw materials such as phosphorus and polymers, which are used in water treatment chemicals, rose significantly. It is difficult to pinpoint the exact impact because supply chain disruption has also played a role in pushing up the CoGS ratio but we estimate that the 1H impact was around ¥0.5 bn. For 2H, we expect an impact of slightly more than ¥0.5 bn. We will respond by raising our product prices.

Q. At the 1Q results call, you indicated that you had already responded by implementing price hikes in Asia and Europe. How are current conditions? What is the expected time frame for take-up of higher selling prices in other regions?

A. We had already initiated selling price hikes in Europe and ASEAN from the beginning of this fiscal year. However, as phosphorus and polymer prices have subsequently risen, we are implementing a further round of price hikes in 2H. For the domestic and U.S. markets, we are actively pursuing price hikes from 2H which should contribute to earnings in the next fiscal year. There are markets like Japan where raising prices is challenging but we aim to implement the hikes as swiftly as possible.

Q. What do you think is the true effective level of business profits for the Water Treatment Chemicals segment if you exclude the impact of rising raw materials prices? Also, I would expect that the impact from price hikes is larger in 2H. What is the background to your forecast for a YoY decline in 2H profits?

A. Despite the fact that the biggest growth in water treatment chemicals typically comes in 2Q, Kurita America did not grow as much as we had hoped. We were also affected by the resurgence of COVID-19 cases in ASEAN. My impression is that this contributed to the shortfall relative to expectations. With regard to the 2H plan, we have taken the uncertainty about rising raw materials prices and logistics costs into account as risk factors.

Q. On the impact of higher raw materials prices in 2H, are you assuming that prices will remain flat at current levels, or are you expecting to see materials prices peak out at some point?

A. We assume that current price levels will persist.

Q. On the 2H forecast for the Water Treatment Facilities segment, I expect the sales mix to improve on the increase in sales to the electronics industry relative to your initial forecasts. Why did you revise down your business profit margin forecast?

A. The rise in electronics industry investments is driving an increase EPC projects. In addition to this change in mix, our revision also reflects the fact that our initial forecast was a combination of a conservative forecast for 1H and a bullish forecast for 2H.

Q. 1H domestic sales for the Water Treatment Chemicals segment was up slightly YoY. Could you talk about conditions by customer sector?

A. Overall, the picture is mixed but while food-related was tough, capacity utilization for steel and petrochemicals was better than we had expected. There was a deterioration in auto-related in 2Q on the back of the impact of semiconductor shortages, but near term, ASEAN is recovering and we expect to see a recovery on the domestic side going forward.

Q. In the Ultrapure Water Supply (UPWS) business, you are planning capital expenditures of more than ¥32 bn for this fiscal year. What level of capex are you expecting in the next fiscal year?

A. The level of capital expenditures will depend upon our success in winning investment projects from our customers.

Q. In the Water Treatment Facilities segment, has there been an impact from rising materials prices, such as steel, ion exchange resins and membranes, or delivery delays?

A. In the hardware and maintenance businesses, our estimates reflect recent market prices so the impact is not as large as it is for the Water Treatment Chemicals segment. While there is an urgent need to lock in procurement volumes given tight demand, in addition to our initiatives to undertake group-wide procurements of materials and components, for key components, we are working closely with our vendors to ensure we can secure inventory. As a result, we haven't seen any meaningful delays in deliveries.

Q. Please provide a progress update on the service-type contract business in 1H.

A. In 1H, we generated sales of approximately ¥1.7 bn. In terms of project types, there were many remote monitoring/control service and pure water supply service projects. To date, because of the pandemic and restrictions preventing us from making on-site visits, we were not able to make progress on field trials, but recently the situation has been improving. The scale of our fixed asset investments which underpin the service-type contract business is increasing. We expect that the capital expenditures undertaken this fiscal year will contribute to higher order intake and sales in the next fiscal year and beyond.

Q. Please describe newly acquired customers at Pentagon Technologies.

A. Pentagon's business is targeted at major semiconductor manufacturers and SPE makers, but its strength is in the cleaning of new semiconductor production equipment. Rising demand for semiconductors has led to an increase in SPE installations, driving growth. By leveraging Pentagon's business platform, we aim to tap into synergies by growing the domestic business at Kuritec Service with SPE makers.

Q. Would it be possible to leverage Pentagon Technologies to develop business with U.S. semiconductor players?

A. With regard to providing ultrapure water production systems for semiconductor fabrication in the U.S., we are currently studying the possibility of leveraging Pentagon Technologies'

customer base if we were to put into place the various elements of EPC functionality (engineering, procurement and construction) or develop a business model suited to the U.S.

Q. What specific initiatives will be implemented to improve the profitability of Kurita America?

A. As a part of PMI, Kurita America had just begun the process of consolidating production and logistic facilities when the COVID-19 outbreak happened, triggering supply chain disruption. In addition, the agrichemical business was impacted by drought in the West; bioethanol-related chemicals were also affected by the volatility in crude oil prices. On top of the consolidation of production sites, a review of product specifications and initiatives to improve logistics, and a shift toward sectors such as food and industrial infrastructure which are less affected by the external environment, we aim to change the business structure by deploying the solution model and CSV businesses.

Q. Please discuss the positioning of and current conditions at the HVAC business at Kurita America.

A. The main focus in the HVAC market is supplying water treatment chemicals for cooling towers. As a result of internal logistics disruption, however, we have not been able to make progress in either procurements or product supply, so growth has been weaker than the general market.

Q. What were 1H orders and sales for China? Also, what is your assessment of the China business in this fiscal year?

A. The Water Treatment Facilities segment reported orders of ¥6.7 bn and sales of ¥5.6 bn. Orders and sales for the Water Treatment Chemicals segment were both ¥4.2 bn. 2Q saw the emergence of a number of negative factors such as power outages, higher raw materials prices and rising logistics costs but there was virtually no impact from COVID-19 in 1H and capacity utilization at FPD and semiconductor customers was favorable. Currently, we are working on service-type contract business wins in the electronic industry: our impression is that the growth will exceed that of last fiscal year.

Q. You are targeting ROE of greater than 10% in your Medium-term Management Plan. Please discuss your policy on shareholdings in other listed companies as a part of measures to enhance balance sheet efficiency.

A. Since becoming president, I have consistently focused on reducing shareholdings in other listed companies. We will continue our efforts to reduce holdings by engaging with the companies in which we hold shares.

Q. Do you have sufficient production capacity in each region for ultrapure water production systems?

A. It would be challenging to undertake the ultrapure water production facilities business in regions where we do not have a platform in place with all of the elements of EPC. We have strengths in terms of capacity in China, S. Korea, Taiwan and Japan. However, we have not been able to establish business execution capabilities comparable to East Asia in ASEAN, the U.S. and Europe. As a result, we are supplying compact, standardized equipment in these regions, with more of an emphasis on post-installation services. Going forward in the U.S., which is a market expected to grow, we would like to explore what an optimal business model might look like.

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