

Summary of the Q&A Session
Financial Results Conference Call for 3Q of the Fiscal Year Ending March 31, 2022

Date and Time: February 1 (Tue.) 11:00 - 12:10

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. Please discuss the impact of surging raw materials prices and initiatives to raise selling prices for the Water Treatment Chemicals segment by region.

A. Europe and ASEAN responded swiftly to the pandemic, already negotiating price hikes or proposing alternative products to customers in response to rising raw materials prices in the last fiscal year. Selling price initiatives had been largely completed prior to 3Q but with raw materials prices for phosphorus and polymers rising further, there was some impact in 3Q. Additional price hikes are being implemented from 4Q onward.

We initiated price hikes from 2H in the domestic business, so higher raw materials prices did have an effect in 3Q. That said, customers have been agreeing to price hikes, so we would expect to see the impact of price measures materialize by early in the next fiscal year at the latest. Progress with price hikes in South Korea and China are halfway between Europe/ASEAN and Japan.

For the US, on top of significantly higher raw materials prices, the effect was compounded by supply chain disruption and increased transportation costs from the beginning of the current fiscal year. As a result, we were unable to fully capture demand in 1H. That said, there was a recovery in demand in 3Q and supply chain disruption is gradually easing. While the impact of higher raw materials prices will persist, the key will be success in negotiating price hikes with customers renewing annual contracts into the new fiscal year. We note that the impact on Avista Technologies was limited, reflecting Avista's high competitiveness which makes it possible to raise prices at any time.

Our overall impression is that the impact of rising raw materials prices was larger than had been factored into our previous forecast. However, rather than simply focusing on price hikes, we aim to take a broad-based, multi-pronged approach, including the consolidation of product specifications, proposals of alternative products to customers, or reductions in delivery frequency.

Q. If we exclude the expenses related to the new R&D sites, I believe that the true 4Q business profit margin for the Water Treatment Facilities segment would be higher than your forecast. While SG&A is likely to rise in the next fiscal year, given expectations for an improved mix what is your view of the profitability of this segment in the FY ending March 2022?

A. Over the four years to this point of the MVP-22 Plan, we have focused on developing service businesses, shifting to focus our business model on value. Ahead of the next fiscal year, which will be the final year of our Medium-term Management Plan, we are in the process of developing many contract-type service businesses separate from the Ultrapure Water Supply (UPWS) business to drive a dramatic improvement in profitability. The forecast for the business profit margin is just slightly below 12% this fiscal year. As we aim to achieve next fiscal year's target of 15%, I believe that the combination of improvements in mix and success in capturing business in the electronics industry, a growth market, should lead to higher profitability than this fiscal year.

Q. Capex plans for the electronics industry in 2022 remain at high levels. Please talk about the outlook for Kurita's operating environment in East Asia.

A. We have seen an unprecedentedly strong capex appetite from the electronics industry since the beginning of this fiscal year. Our focus to date in China has been FPD and semiconductors, but near term capex for FPD is mainly capacity expansions for existing plants. Going forward, we expect growth will be largely concentrated on semiconductors.

We will concentrate on successfully capturing capex projects from customers with whom we have strong relationships in South Korea and Taiwan. On the domestic side, we have had solid success with customers where we have longstanding relationships. By also focusing on wins from non-leading edge customers with proposals for non-EPC unit-type pure water supply services and others, we hope to achieve stronger growth compared to this fiscal year.

Q. You indicated that there were delays on some projects in the Water Treatment Facilities business in China. Could you provide a little more color?

A. The delays are simply due to timing. Some projects that had been expected to complete during the current fiscal year being pushed into next fiscal year. The underlying market is solid.

Q. I believe that the high 3Q business profit margin for the Water Treatment Facilities segment is the result of growth in the electronics industry business. There was an increase in quarterly overseas maintenance sales in particular. Is this more a reflection of growth in conventional maintenance as opposed to contract-type services business, which you are targeting under MVP-22?

A. Current growth is more the result of strong capacity utilization at our customers' plants, rather than special factors. In addition to conventional maintenance, we have also been able to respond to customer needs for production capacity expansion and maintenance that can be achieved without stopping production lines.

Q. The forecast for UPWS capex skews heavily to 2H. Will this level of investment continue into the 1H of the next fiscal year?

A. I cannot comment specifically but I believe we can look forward to an environment conducive to high levels of investment.

Q. In the presentation materials, you have highlighted the ability to lock in a large volume of water as an issue for the electronics industry. At a time when semiconductor and SPE makers are increasing capex, are we getting close to the limits in terms of water volume? Or, is it that you will be proposing solutions that include waste water reclamation to customers in regions where water is already in short supply?

A. There are many meanings behind the wording we have chosen. In locations where water is scarce or difficult to procure, the value of water reclamation technologies will rise. In instances where it is not possible to build new capacity and the customer must expand existing capacity, there will be demand to adopt KWSS (Kurita Water Supply service) or upgrade facilities. The Kurita Group can offer many solutions to electronics industry customers facing issues as a result of constraints related to location.

Q. I believe the margin for the electronics industry Water Treatment Facilities business is rising. What are the factors contributing to the improved profitability?

A. One major trend has been the strong capex appetite of a broad range of customers in semiconductors and electronic components, which has allowed us to be selective. We have also been able to raise the profitability of individual projects through our ability to combine a wide variety of services for customers requiring immediate responses to the need to expand capacity or address water scarcity.

Q. You have indicated you will expand the range of the domestic electronics industry tool cleaning business by leveraging Pentagon Technologies. Please talk about the current progress and the timeline for seeing results.

A. The tool cleaning business concentrates on cleaning components of semiconductor and flat panel display manufacturing equipment. However, SPE makers also need to clean new equipment prior to installation at new lines at customers' fabs. The cleaning of new equipment requires a high degree of technological expertise as well as certification by SPE makers. Pentagon is already accredited and recognized for its technology. By having domestic Kuritec Service leverage Pentagon's technology and expertise, we believe we can develop new channels and customers. We expect to see results in the current or next fiscal year.

Q. Given the high business profit target of 15% set out in the MVP-22 plan, while the electronics industry business is strong and price hikes in the Water Treatment Chemicals segment are likely to lead to improved margins, the pace of improvements in the Water Treatment Facilities business for domestic general industry is sluggish. How much of an improvement are you expecting to see in the Water Treatment Facilities business for general industry during the current Medium-term Management Plan?

A. Progress on the migration to contract-type service businesses in the Water Treatment Facilities business for general industry has been limited, although we have been able to add

operations/maintenance services to the EPC business. Also, when taking on the challenge of developing new technologies and products in EPC, new issues, such as the time required to establish technology and operation and maintenance know-how can emerge. As such, progress on improving profitability is slow. We are working on shifting away from an EPC focus to a business model concentrated on operation/maintenance and services. However, it will be difficult to achieve a dramatic improvement in margins in the next fiscal year. We would like to provide a more detailed image of our vision for improving margins in the next Medium-term Management Plan.

Q. Please provide the breakdown between electronics industry and general industry for the 20.3 billion yen full-year Water Treatment Facilities segment business profit forecast.

A. We do not disclose the sub-segment business profit breakdown but the contribution of the electronics industry is high.

Q. Given the current challenging task of achieving a business profit margin of 15%, have you analyzed what is the biggest shortfall versus your assumptions at the time the MVP-22 Plan was formulated?

A. The first factor is the delay in ramping up the US subsidiary. Our scenario was to acquire a business base for the US through M&A, and to layer high value-added Kurita products and services on top. We expected this would allow us to improve margins in a short period of time. Aiming for a margin of close to 15%, we swiftly moved to integrate the subsidiaries and initiate PMI. However, changes in the external operating environment including the pandemic have revealed shortcomings in the ability to respond to change. Progress has been slow.

The second factor has been sluggish progress in the Water Treatment Facilities business for the domestic general industry. Establishing new technologies and operations/maintenance know-how as well as developing new services in EPC and new fields, such as biomass, has been slower than expected.

Q. Is your image for the next Medium-term Management Plan that you will be able to overcome the current issues and be able to set a target higher than 15%?

A. If we can successfully address the two issues just discussed then I believe we can achieve a business profit margin of more than 15%. I would like to set a margin target that inspires pride in our employees in confirming our transition into a high-margin company.

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