Summary of the Q&A Session
Financial Results Conference Call for 3Q of the Fiscal Year Ending March 31, 2023

Date and Time: February 3 (Fri.) 10:00 - 11:00

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. The order level for the overseas precision tool cleaning business for 4Q appears high. What is your view of the impact of the market environment on the business? Also, labor costs increased in 1H. Can you provide an update on current conditions and progress on countermeasures?
A. We are implementing measures but the business is undeniably being impacted by trends in the semiconductor industry. In particular, if the impact on our customers from US - China trade friction persists, progress could be slow. At the same time, the trend in semiconductor investments in the US sparked by geopolitical risk is firm, although there may be some slight delays. Such investments represent potential business opportunities. We have been able to bring rising labor costs under control to a certain degree by appropriately allocating resources.

Q. Has the profitability of the overseas precision tool cleaning business improved versus 2Q?
A. Profitability has dipped slightly as a result of weak progress on sales.

Q. What impact does inflation, such as higher labor and procurement costs, have on the profitability of contract-type businesses such as the Ultrapure Water Supply business?
A. We are negotiating with customers in line with the contract terms, so there hasn't been a large impact.

Q. What progress have you made on selling price hikes in the Water Treatment Chemicals business? Please comment on progress by region.
A. In the Asia region, there are some areas where selling price hikes and cost reductions haven't fully offset the impact of higher costs, but our plan is to fully cover the impact on a full-year basis. In a continuation of the 1H trend, Europe continues to offset the higher cost-of-sales with selling price hikes and cost reductions. For North and South America, progress in improving profitability at Kurita America has been lackluster. While selling price hikes are being implemented, there is a time lag between the rise in selling prices and the increase in raw materials costs. In Japan, we are continuing to implement initiatives and are engaged in negotiations for a second round of selling price hikes but there are some areas where it is taking longer than we had expected. For those transactions where we have not been able to fully pass along higher costs, we will pursue a third round of selling price hikes.

Q. How has the level of cost increases changed compared to 2Q?
A. From the start of this fiscal year, we have seen a pronounced impact from surging crude oil prices as a result of the situation in Ukraine. While prices for naphtha, which is the precursor for polymers, have been falling recently, price levels remain elevated. We believe we will need to continue to closely monitor the situation.

Q. Your forecast for the overseas Water Treatment Facilities orders from 3Q into 4Q implies a rapid slowdown. Please explain the backdrop. Could you also comment on your view of demand for new facilities in the next fiscal year?
A. The semiconductor market is currently in a correction phase. We don't expect a continuation of the 1H trend going forward. However, the major semiconductor manufacturers base their investments on forecasts of future demand over a multiyear period. We expect that semiconductor-related players are similarly likely to continue investing. We are being selective of the projects we accept based on our production capacity, profitability and other factors. Depending upon the content of the project, it's possible that there may be additional order wins beyond what is included in our 4Q forecast.

Q. The 4Q order forecast for the domestic Water Treatment Facilities for general industry appears ambitious. Are there projects where you already have visibility or is progress to date slower than you had expected?
A. For some of the energy and infrastructure business, we have been impacted by the customers' investment plans, so progress relative to our full-year plan has been slow. We chose to maintain our previous forecast because we anticipate a certain level of demand in 4Q but recognize that our target is high.

Q. Are there other service businesses apart from precision tool cleaning business where we should be mindful of risks?
A. Excluding the precision tool cleaning business and the slow progress on parts of the energy and infrastructure business, we have already seen a recovery from the impact of rising COVID-19 infections, so there are no other particular risks we see at this time.

Q. On the weaker profitability of the overseas precision tool cleaning business, I believe there were plans to raise prices in response to higher labor costs in 1H. Is progress on this initiative delayed? Or, are you already comfortable that profits will recover and it is just that there is a time lag?
A. On rising labor costs, we are implementing measures for a profit recovery by raising prices. We don't expect to see a major impact from higher labor costs in 3Q. Progress on sales versus our targets has been slow. This is leading to the weaker profitability.

Q. Please discuss the 3Q progress on the Water Treatment Chemicals CSV business.
A. The 9-month cumulative orders for the Water Treatment Chemicals CSV business were approximately 16 billion yen. Roughly 9 billion yen was overseas; growth was around 40% on a local currency basis.

Q. You have had success in winning many facilities projects in China and South Korea. Please comment on production conditions at your sites and production capacity.

A. Production capacity is very tight. We have had several instances where we have had to turn down inquiries. We are currently accepting orders based on our relationship with the customer and future potential profit contribution, including maintenance.

Q. Does that mean that you do not need to stretch to build orders for facilities for the next fiscal year?

A. In the facilities business, there are instances where we have accepted some frontloaded orders reflecting the longer lead times for components and materials. As such, we would expect next fiscal year's orders to moderate.

Q. You have left your full-year forecast for the domestic Ultrapure Water Supply business orders and sales unchanged, for a YoY increase of approximately 6 billion yen. 3Q appears to have trended in line with your expectations. Can we expect a similar level of growth in next fiscal year? Or, would you expect growth to moderate given that semiconductor demand is in a correction phase?

A. I don't have specific numbers that I can share with you at this point but there will be revenue recognition from projects where investments were initiated in this fiscal year, so we do expect growth.

Q. One factor which is making it difficult for you to achieve the 15% business profit margin target set out in the Medium-Term Management Plan is the slow pace of margin improvement at Kurita America. You appear to be continuing to struggle with the chemicals business but has progress been made in terms of improving profitability?

A. Kurita America's main market targets retail facilities. As a result of the pandemic, air conditioning facilities' utilization levels were low in both of the last two fiscal years. However, this fiscal year, utilization is recovering. Demand for industrial applications is also improving. In addition, Kurita America is concentrating resources on the food industry which is less vulnerable to impacts from the external environment. On the cost side, we continue to see an impact from surging raw materials prices and logistics expenses. It is true that in part, the catch-up from selling price increases has been slower than expected but overall, we believe that we are making progress on improving profitability.

Q. With regard to next fiscal year, can you provide an image of earnings trends? How should we think about the timing of revenue recognition on orders received this fiscal year? How will electric power and raw materials costs impact profitability?

A. We are currently in the process of formulating the plan for next fiscal year so I will not comment specifically but while we expect a slowdown in orders for facilities compared to this fiscal year's level, there will be a contribution to sales from the order backlog. Our stance to pass on the impact of rising raw materials prices and energy costs through higher selling prices, subject to the prevailing conditions, remains unchanged.

Q. What were the factors that pushed overseas facilities orders as of the end of 3Q above the level of the full-year forecast? Similarly, is there a possibility that orders could come in above expectations in 4Q?

A. Backed by a market environment where the pace of semiconductor-related investments remains robust, there were many projects emerging, mainly in East Asia. With regard to 4Q, depending upon the market environment and individual projects, there is a possibility that orders could exceed our forecast.