Summary of the Q&A Session
Financial Results Conference Call for the 1Q of the Fiscal Year Ending March 31, 2024

Date and Time: August 9 (Wed.) 10:00 - 10:45

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. In the Electronics Industry segment, there was a frontloading of facilities orders. Even taking this into account, I believe the order trend for 1Q was firm. Please comment on your assessment of 1Q orders and the outlook for 2Q.

A. The frontloading of facilities orders for the Electronics Industry segment was primarily related to China and Taiwan. It is difficult to quantify specifically but we estimate that the impact of order frontloading from 2Q into 1Q was around 3 billion yen. We expect these markets will maintain a firm trend going forward. At the same time, semiconductor market conditions are leading to increased uncertainty for the precision tool cleaning business, so we have left our 1H order forecast unchanged although it may be slightly conservative.

Q. Please comment on the operating environment for the electronics industry in Asia.

A. We expect semiconductor investment appetite in China to remain strong, with local semiconductor makers continuing to invest. We will respond accordingly while also taking into consideration our production capacity.

Taiwan is feeling the impact of the global semiconductor market slowdown but local chipmakers' investments remain strong. We are currently considering opportunities to grow our business by leveraging the customer contact points developed in Japan.

The operating environment in South Korea is benefiting from government support, such as subsidies, for the semiconductor industry. However, chip makers are trying to determine the right timing for investments given the impact of the slowdown in memory.

Q. You began disclosing recurring contract-based services in the General Industry segment in 1Q. Please provide more color, such as the kind of models this includes, profitability and length of contracts. Also, could you highlight the differences between this and the Ultrapure Water Supply (UPWS) business, if any.

A. We had previously showcased Kurita Dropwise Technology, which is a product that leverages technology to improve heat efficiency, and the 3S Solution for waste water treatment. The majority of contracts are typically between 3 to 5 years. Profitability varies by business model, so a comparison to UPWS is tough, but we believe all are capable of generating high margins.

Q. You indicated that the trend for the chemicals business in China within General Industry was weak. Please provide an update on conditions by region.

A. Within Asia, the decline in sales is primarily in China. Near term, the Industrial Production Index in China has been in a downtrend, on the back of the impact of lower factory capacity utilization in the auto, petrochemical and electronics industries. For North and South America, sales at Kurita America fell on measures to scale back low-margin businesses, but otherwise trends are firm. While the economic recovery in EMEA is paused, Kurita's chemicals sales are growing. On the back of the exit from low-margin transactions, Japan is largely flat.

Q. I understand that Japan had been slow to raise prices to date. Please provide a progress update.

A. We are making steady progress on price hikes, which is leading to improved profitability.

Q. Maintenance orders within the Electronics Industry segment appear to be showing solid progress. Please provide further color on progress in 1Q. Were there large orders in 1Q? Also, how should we think about the sustainability of this trend in 2Q and beyond?

A. Maintenance orders in 1Q came in ahead of our assumptions, partly on the frontloading of some projects. Progress was particularly strong for Taiwan and South Korea. Our projection for 2Q is slightly conservative so there may be room for upside.

Q. Given sales for the Japan chemicals business within General Industry were flat but unit prices rose, does this imply that volumes fell? Also, please describe the trends for individual industries such as pulp and paper or automotive.

A. While sales of chemicals in Japan rose on price hikes, this was offset by the impact of exiting low-margin transactions, hence the flat sales. By industry, while steel sheet for autos was strong, steel industry plant capacity utilization was largely unchanged from the previous fiscal year. In pulp and paper, while paper was in a down trend, capacity utilization for paperboard was high, unchanged from the levels of the previous fiscal year. For oil refining, we haven't seen a significant change from the previous fiscal year. However, although crude oil prices have stabilized from the elevated levels triggered by the Russia-Ukraine situation, prices have been rising near term. The outlook remains uncertain.

Q. Auto production volumes are up YoY. Will this result in opportunities for Kurita? Also, summer temperatures have been very high this year. What impact will this have on sales of cooling tower chemicals?

A. The ratio of sales from autos is not that high, so we expect the impact to be small. For cooling tower chemicals, peak demand is in the summer so we hope to see growth.

Q. The full year sales target for the CSV business is 50 billion yen. Was the progress in 1Q in line with plan? Are there seasonal factors that impact the individual quarters? Also, can you disclose the results for last fiscal year's 1Q?

A. The CSV business is a focus area under PSV-27: Kurita is proactively expanding this business globally. Relative to our full year target of 50 billion yen, 1Q was slightly weak but we have been stepping up initiatives for this business in this fiscal year, including a review of the organizational structure. We expect to see the impact of these measures come through from 2Q into 2H. By revitalizing sales activity, we believe we can win business by informing our customers of the value our solutions can provide. It is a cumulative process, so seasonal factors are minimal. Also, with regard to performance in the last fiscal year, we made changes to how we aggregate the data so we don't have figures to hand.

Q. With regard to the 1Q business profit margin (BPM), I believe you were expecting to see a deterioration in mix in the Electronics Industry segment, reflecting the increase in facilities sales and the recognition of sales from a strategically important large-scale project. How do you assess the BPM relative to internal assumptions? Also, can you disclose the scale of 1Q sales from the strategic large-scale project and the expected impact in 2Q and 2H?

A. From the outset, we had expected a deterioration in mix as a result of the increased ratio of facilities sales within the Electronics Industry segment: as such, 1Q was in line with plan. On the strategic project, we do not disclose the scale of sales for individual projects, but revenue recognition will be mainly in 1Q and 2Q. As such, we expect profitability to improve from 2H.

Q. Within sales for the Electronics Industry segment, progress for precision tool cleaning appears weak. Is it tracking in line with your initial assumption for sequential quarterly recovery? Also, are there downside risks that you have factored into your plan for sales, such as pushouts or cancellations of facilities projects?

A. Current facilities projects in the Electronics Industry segment are mainly in China and Taiwan. Although we would need to review the business thoroughly to say for sure, we do assume that a certain level of orders will be maintained. As players in South Korea are taking a wait-and-see attitude, there are concerns about potential pushouts, but we don't expect the impact to be too big. For precision tool cleaning, uncertainty in the semiconductor market is rising. At the beginning of the fiscal year, we expected a recovery in 2H, but given that 1Q progress versus the 1H forecast was weak and it will take time for remedial measures to have an impact, we recognize that achieving the full year target is becoming more challenging.

Q. You indicated that the 1Q foreign exchange impact for the Electronics Industry was 0.3 billion yen and General Industry was 1.4 billion yen. I don't believe that there is much difference in the proportion of overseas sales between the segments. Why is there a bigger foreign exchange impact on the General Industry segment?

A. A high proportion of overseas sales for the Electronics Industry segment comes from East Asia. As there wasn't significant change in RMB rates, the foreign exchange impact was limited.

The overseas business for General Industry is diversified across regions. The proportion of sales from the U.S. and Europe is also high, which is why there are differences in foreign exchange impact between the segments.

Q. Could you provide more color on CSV business sales by segment, such as the background, the number of projects, the scale of revenues per project, as well as specific examples?

A. I cannot comment too specifically, but within General Industry, we are seeing an increase in the number of small scale (in value terms) projects, partly because our current focus is to proactively expand Kurita Dropwise Technology. The CSV business within the Electronics Industry segment consists of UPWS and KWSS, which tend to be relatively large scale projects in value terms.

Q. Does the UPWS business include CSV business?
A. A portion is included within the UPWS business, but it represents only a small fraction of total UPWS sales.

Q. With regard to the BPM for the General Industry segment, versus your full-year target of slightly less than 10%, 1Q was 6.5%. My impression is that you should have been able to achieve a slightly higher margin, given you raised selling prices on chemicals and are withdrawing from low margin transactions. How do the results compare to your internal assumptions? What is your view for 2Q and beyond?
A. The gains in profits were the result of an improved CoS ratio, on growth in sales and selling price hikes, which allowed us to absorb an increase in SG&A. Orders, sales and profits are tracking in line with plan and we expect to see further improvement from 2Q onward.

Q. I believe the objective of the large scale facilities project from which you are recognizing revenues in 1H was to establish a contact point with the customer that would lead to service business proposals. Do you feel this strategy is working? What has been the progress to date?
A. As a result of the relationship we have developed through the new transaction, we are considering possible precision tool cleaning business in the U.S. and have had several inquiries for maintenance projects in Taiwan. We would like to evaluate the opportunities as we respond.

Q. The precision tool cleaning business is tough, given the lower capacity utilization at customer fabs. Have you seen signs of improvement in the U.S. business compared to 4Q of the previous fiscal year?
A. The business environment in the U.S. is not improving. 1Q sales were flat QoQ.

Q. What are the current conditions at Kurita America, where you recognized impairment losses in the previous fiscal year? Are you seeing improvements?
A. Earnings at Kurita America are tracking in line with plan. Sales are down on the downsizing of the low margin farming- and energy-related businesses, but in addition to reorganizing these businesses, good progress is being made on selling price hikes. Profitability is improving.

Q. What is the profitability of the CSV business?
A. Profitability is higher for the CSV business than the non-CSV business. We believe that the profitability of the CSV business can contribute to the achievement of the BPM we are targeting in the medium-term management plan.

Q. When looking at the profitability of the General Industry segment, if the business benefited from higher sales and an improved CoS ratio, this implies that the deterioration in SG&A was quite large. Given the large scale of the chemicals business, are you being impacted by a rise in labor costs? Can higher CoS and labor expenses be covered by selling price hikes?
A. SG&A for the General Industry segment increased on higher labor costs and foreign

exchange impact. The increase in SG&A was outweighed by the impact of higher sales, including a contribution from price hikes. On a full year basis, we expect profits to grow with the impact of topline growth exceeding the increase in costs.

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