

Summary of the Q&A Session
Financial Results Briefing for 2Q of the Fiscal Year Ending March 31, 2024

Date and Time: November 8 (Wed) 9:00 - 9:50

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. Please comment on the demand environment for the electronics industry. While the full-year forecast for the facilities business was revised up, the forecasts for precision tool cleaning and recurring contract-based services were lowered, reflecting divergence from the initial plan for individual businesses. Please share your view of conditions by region and customer industry as well as commenting on the outlook for the timing of a recovery in demand going forward.
- A. In terms of electronic industry production conditions, production of power semiconductors and analog ICs is picking up but the recovery in memory is still slow. There has been a significant impact on the precision tool cleaning business, which is directly tied to customer production. We assume a recovery in the next fiscal year and beyond but have started to see signs of improvement near term. We will monitor market conditions closely in managing this business. In terms of capital expenditures, activity levels for investments, primarily focused on power semiconductors and analog ICs, are high across the regions, led by China, Japan, Europe and the US. We are seeing strong inquiry levels in China. In Japan, where there are many investment projects, we have received customer commitments for the adoption of a new water supply service. We are implementing measures in alignment with market conditions.
- Q. Were the new water supply service wins with existing customers? Also, please provide an image of investment scale, how the new service is different from existing services, and the key factors that contributed to the wins.
- A. There were 2 new wins in water supply service projects, both in Japan. We do business with almost all players in the electronics industry in Japan. Although we had transacted with the customers taking the new service, this is the first time we have engaged in business in the form of a water supply service. The projects are for power semiconductors and analog ICs respectively. Some of the capital expenditure is included in this fiscal year but the vast majority is expected to be recognized in the next fiscal year. I believe the key factors behind our success this time are as follows. We are leveraging technology and know-how which is backed by our track record. On top of this, we have expanded the scope of the service to cover utility facilities, going beyond our traditional focus on water treatment facilities up to now. This, combined with environmental value, such as reducing energy usage, recycling materials and reducing resource inputs, contributed to our success. The model also contributes to improving our customers' profitability.

- Q. When will there be a contribution to earnings?
- A. I can't disclose the details but the contribution is likely to be in FY ending March 2025 or later.
- Q. You won 2 new water supply service projects this time. Can we look forward to more of these type of projects in the next fiscal year? Could you provide some detail on whether you are making progress on customer discussions?
- A. I will limit myself to saying that there are potential projects where we are making progress. The value of environmental contributions to customers is rising. In addition, there are customers that also want to control initial investments, or want to start plant operations early. We hope to win more projects in the next fiscal year and beyond.
- Q. Should water supply service businesses which incorporate environmental value be considered CSV businesses?
- A. The portion of the overall business which contributes to environmental value is counted as a CSV business.
- Q. With regard to the North American electronics industry water treatment facilities business under negotiation, please provide specific details on the progress you have made and the timeline for expected profit contribution.
- A. We are currently negotiating with 1 major customer and are in the final stages of hammering out the overall contract terms and conditions. We expect this transaction to be confirmed before the end of the calendar year.
- Q. Is it a comprehensive project that also includes precision tool cleaning?
- A. This time it is for water treatment facilities only. We are also making progress on negotiations for precision tool cleaning in a region that is seeing high levels of investment activity.
- Q. It is positive that you are making progress on improving the CoS ratio in the chemicals business within the General Industry segment. Do you expect this trend to continue into the next fiscal year?
- A. The improved CoS ratio for chemicals benefited from the impact of progress on initiatives to pass along higher raw materials costs in the form of price hikes. We expect the impact from this going forward to stabilize but given the ongoing optimization of the product mix based on profitability, we do expect to see further improvements, although it will be gradual.
- Q. What is your policy on winning water supply service projects in the electronics industry? My impression is that the roster of suppliers is largely fixed at major chip makers. Going forward, is it fair to say that the new projects you win will be small- to medium-scale customized water supply services rather than large-scale projects?
- A. Kurita aims to continuously provide value to its customers. Of the many projects in the electronics industry, we aim to win those projects where Kurita's value proposition resonates with the customer and where we can provide service on an ongoing basis.

Therefore, rather than focusing on project size, our policy is to focus on developing customer relationships where the customer understands the value proposition.

Q. Please provide an overview and background to the facilities business project where you have factored in the risk of incurring additional costs in 2H of this fiscal year.

A. This is an operations and maintenance project for a domestic biogas power generation facility, which is a new challenge for Kurita. We have factored in around 1 billion yen in additional costs.

Q. I have frequently heard talk of problems at biomass-related power generation projects. I would like to know how much of a potential risk there is for Kurita.

A. As it is a new area for us, rather than taking a broad approach, my understanding is that there is only one project where there is risk.

Q. Are you seeing changes in how customers perceive the water supply service? If there is a more diverse need now to reduce assets or reduce the environmental burden, this would be positive. Is it your impression that there has been a sea change?

A. To date, Kurita has focused on reducing customer burdens and creating an environment that allows customers to focus on their core operations through the water supply service. In addition to incorporating utilities, we are able to use a broad range of methods to address environmental value. For instance, the electronics industry uses many chemicals and raw materials: we can propose many different approaches to effectively dispose or recycle the materials. My understanding is that customers are responding favorably to this. Customers in industries other than electronics also face similar challenges. I think this could develop into a trend going forward.

Q. Will expanding the range of the proposals allow Kurita to expand the range of its customer base?

A. We are now reaping the fruits of trial-and-error initiatives undertaken over the long history we have with our customers to date. We are making proposals to new customers based on this.

Q. My impression is that market conditions for electronics are not good at all. Why did 1H Electronics Industry segment facilities orders overshoot the initial forecast? Also, are you expecting a similar trend in 2H?

A. Investment levels were high for power semiconductors and analog ICs in Japan and China. Specifically, backed by China's moves to increase domestic production, I believe that we will see a similar trend for the environment in 2H.

Q. You had indicated that your earnings assumptions take into account in a sluggish economic recovery in China. Will the trend for the electronics industry be different?

A. The chemicals business for general industry has been significantly impacted by macro conditions but investment activity remains high in the electronics industry, particularly related to semiconductors.

- Q. Please discuss your policy for winning customers in order to stabilize earnings. Is your policy to try to achieve a balanced customer base where you do not rely heavily on a specific area, like memory, but, for example, instead increase exposure to legacy players? Or, is the key determinant profitability or diversification of services?
- A. Our policy is to focus on projects for customers across a wide range of industries that rate the value Kurita provides highly and customers who say they wish to work with us.

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