

Summary of the Q&A Session
at the 1st ESG Briefing

Date and Time: March 19 (Fri.), 2021, 15:00 - 16:20

Notice: This summary is a reference designed for the convenience of those who could not attend the 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. I believe the recent trend toward decarbonization is likely to limit the scale of the Water Treatment Chemicals business in future, as a result of a declining need for water treatment as power generation sources shift from thermal to other sources such as wind power, and an increase in the proportion of services which will contribute to a reduction in the volume of water treatment chemicals used, as highlighted in the presentation. From a medium- to long-term perspective, how are you thinking about the positioning of the Water Treatment Chemicals business and opportunities to mitigate business risk?

A. From the perspective of creating shared value with society, water treatment chemicals can be viewed as one of several components that go into water treatment solutions. As such, I believe that the business can survive in the form of solutions that utilize chemicals going forward. We are focused on initiatives to strengthen our relationships with customers that use large volumes of water, in industries such as electronics, steel making, petrochemicals and pulp and paper. A deeper understanding of customer production processes should create opportunities for solutions' growth in areas that had not used either chemicals or facilities to date. Given this, we see no need to be pessimistic about the future.

Q. You started the solutions business in the domestic market. Do you have sufficient resources to expand globally going forward? What is your strategy for securing resources in the overseas markets?

A. The solutions business is predicated on optimizing water treatment through a combination of chemicals, facilities and maintenance services. In each of the regions of East Asia, Southeast Asia and North America, Kurita already operates in all 3 business areas. It is possible to deploy the domestically developed solution models in these regions and, in fact, we are already starting to provide solution models equivalent to domestic solutions in East Asia and Southeast Asia. However, currently the business in Europe is primarily focused on the Water Treatment Chemicals business. We aim to deploy solutions once we have developed the supply chain necessary to conduct the facilities and maintenance businesses in the region.

Q. How will sales activity change as you promote the CSV business?

A. The most important element in pursuing the CSV business is to move away from the traditional definition of the water treatment business, and to redefine it with a focus on value.

Under the MVP-22 plan, we set out a two-phase process to accomplish this. In the first stage, over the last 3 years, we concentrated on redefining the business by focusing on customer value, rather than orders, sales or costs. We revisited our understanding of the kind of value we generate for our customers through our businesses.

In the second stage, over the next 2 years, I believe it will be necessary to redefine water treatment yet again, from the perspective of societal needs and social issues. Through this process, we may also discover values that neither our customers nor Kurita had recognized to date. This focus on value as the starting point for engaging in sales activity will be the biggest change.

Q. To achieve your target for the fiscal year ending March 2023 to expand the CSV business to account for 20% of total sales implies an annual growth rate of 20% from the results of the fiscal year ended March 2020. What gives you confidence in your ability to accelerate growth?

A. The definition of the CSV business is broad and not limited to just new products and services. It also includes products and technologies in existing businesses that contribute to reducing water usage, CO₂ emissions and waste. As an example, an Ultrapure Water Supply (UPWS) project that includes technological elements contributing to wastewater reclamation, which significantly reduces water use, would be included in the CSV business. The CSV business target reflects contributions from UPWS capex and existing businesses.

Q. Despite having a target to reduce CO₂ emissions (net reduction based on Kurita's contribution to reducing customers' emissions volume less Kurita's own emissions volume) of 15,000 tons in the fiscal year ended March 2020, your reduction target for the fiscal year ending March 2023 is set at 10,000 tons. Why?

A. We expect our own CO₂ emissions volume to increase in this fiscal year and the next, as a result of business expansion related to UPWS facilities, leading to a higher load. Our medium-term target reflects the higher expected level of our own emissions volume which is deducted from our contributions to reducing customers' emissions. We revisit our targets every fiscal year. Rather than setting low targets that would not drive meaningful activity, we are constantly aiming to set challenging targets.

Q. Can you provide a more specific image for 'Transformation of products and services provided and business' which you cite under measures aimed at achieving Scope3 emission reductions?

A. This refers primarily to the transformation of our service businesses, reflecting existing initiatives focused on social issues. Currently, close to 90% are services that would not be considered CSV businesses; our aim is to transition these services to the CSV business model. Under the MVP-22 plan, we aim to maximize customer intimacy. Our objective is to transition to business models that generate value over a longer time horizon, focusing on long-term contracts, rather than spot transactions. I would expect to see an increase in the services portion and a decline in the portion coming from hardware.

Q. On the back of a rising awareness of ESG and CO₂ emissions, have you seen a change in customers' inquiry levels or awareness of the CSV business?

A. As a result of the pandemic, there have been changes to how customers and society perceive value. I feel this represents a business opportunity for Kurita. On the back of the emerging recognition of water security issues, we have seen increased awareness amongst customers that had historically expressed little interest in water-saving solutions. I also feel more customers are starting to show an interest in our solutions business, in response to the need to ensure business continuity in a rapidly changing operating environment. The evolving perception of value is apparent in all our customer industries but I feel the change is particularly acute amongst customers that require high purity water, such as the electronics industry, or that use significant volumes of water, such as heavy industry.

Q. How is the UPWS business likely to be evaluated under GRI standards?

A. According to the information disclosure requirements added to the GRI standards in 2018, although the ultrapure water generated in UPWS by Kurita is to be supplied to our customers, it will be categorized as water/effluents discharged to a third party. As such, Kurita is viewed as having a business with an extremely high water load; we are concerned we will be perceived as high risk for water. We believe we will need to provide more detailed information to enhance understanding, such as disclosing the ratio of ultrapure water supplied to our customers through the UPWS business within water and effluents discharged to third parties, and explaining how the supplied ultrapure water is reclaimed and recycled.

Q. When looking out to 2030 or 2050, will Kurita's business domain be focused on industrial water? Even if Kurita is not considering the area of drinking water, might there be opportunities in areas such as the agricultural water environment?

A. I do expect that our main focus will be on industrial water but I believe that operational contact points on the ground will not be limited to industry but will expand to encompass society as a whole. As an example, in the US, we have leveraged water treatment technology typically used in industrial settings for agricultural use. Domestically as well, we have seen a broadening of the use of our technology, such as water treatment systems to be used in strawberry farms. Our subsidiary Fracta provides a service that predicts deterioration of water pipes. As such, I expect the scale of our non-industrial businesses to have expanded by 2050. Given the expected difficulties in securing water sources going

forward, I believe there will be other areas where we can apply the technologies and solutions models we have developed for industrial applications in Japan.

Q. There is a lot of interest in direct air capture, a technology that captures CO₂ from the atmosphere. Are you working on technologies that could similarly be considered carbon negative?

A. At this time, we are not doing work on this technology. However, we are exploring what might be possible with technologies we currently have, and will be proactively allocating management resources to these efforts.

Q. I think calculating Scope3 is difficult. Are you using an external organization for the calculation of estimates, or are these internal estimates?

A. These are in-house estimates. It is possible to have estimates audited by an independent organization but we are not at that stage yet. In calculating our estimates, we are applying the CO₂ coefficients in the input-output tables to data such as the value or mass of Kurita Group procurements.

Q. From an ESG perspective, I believe the soil remediation business can make a positive contribution. Please discuss your vision for expanding this business overseas.

A. At this time, we are exploring the possibility of expanding the soil remediation business overseas. In emerging markets, it may well be that soil contamination becomes an issue on the back of industrialization. I have also heard that a legal framework has been put into place in Thailand. However, we are still in an exploratory phase.

Q. Is it correct to assume that the results already disclosed for the solution model business are included in the CSV business figures? If so, can we assume that the contribution from the solution model business to the CSV business target for the fiscal year ending March 2023 will increase?

A. Yes, the solutions model business results are included in the CSV business results, and directionally, we would expect it to account for a higher proportion in future.

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